



# Koninklijke KPN N.V.

(Incorporated in The Netherlands as a public limited company with its corporate seat in the Hague)

€10,000,000,000

## Global Medium Term Note Programme

Under this €10,000,000,000 Global Medium Term Note Programme (the “Programme”) Koninklijke KPN N.V. (the “Issuer”, which expression shall include any Substituted Debtor (as defined in Condition 17), the “Company” or “KPN”) may from time to time issue notes (the “Notes”, which expression shall include Senior Notes and Subordinated Notes (each as defined below)) denominated in any currency agreed between the Issuer and the relevant Dealer (as defined below).

Notes may be issued in bearer or registered form (respectively “Bearer Notes” and “Registered Notes”). Subject as set out herein, the Notes will not be subject to any maximum maturity but will have, in the case of Senior Notes, a minimum maturity of one month and the maximum aggregate nominal amount of all Notes from time to time outstanding will not exceed €10,000,000,000 (or its equivalent in other currencies calculated as described herein).

The Notes will be issued on a continuing basis to one or more of the Dealers specified herein and any additional Dealer appointed under the Programme from time to time, which appointment may be for a specific issue or on an ongoing basis (each a “Dealer” and together the “Dealers”). The Dealer or Dealers with whom the Issuer agrees or proposes to agree on the issue of any Notes is or are referred to as the “relevant Dealer” in respect of those Notes.

Application has been made to Euronext Amsterdam N.V. for Notes issued under the Programme up to the expiry of 12 months from the date of this Prospectus to be admitted to trading on Eurolist by Euronext Amsterdam (“Euronext Amsterdam”).

References in this Programme to Notes being “listed” (and all related references) shall mean that such Notes have been admitted to trading and listing on Euronext Amsterdam. Euronext Amsterdam is a regulated market for the purposes of Directive 93/22/EC (Investment Services Directive). In addition, Notes issued under the Programme may be listed or admitted to trading, as the case may be, on any other stock exchange or market specified in the applicable Final Terms. Application may also be made to have certain Series of Notes accepted for trading in the Private Offerings, Resales and Trading through Automated Linkages System (“PORTAL”) of the National Association of Securities Dealers, Inc. The Issuer may also issue unlisted Notes.

The Notes have not been and will not be registered under the U.S. Securities Act of 1933, as amended, (the “Securities Act”) or any U.S. state securities laws and may not be offered or sold in the United States or to, or for the account or benefit of, U.S. persons (as defined in Regulation S under the Securities Act) unless the Notes are registered under the Securities Act or an exemption from the registration requirements of the Securities Act is available. See “Form of the Notes” for a description of the manner in which Notes will be issued. Registered Notes are subject to certain restrictions on transfer, see “Subscription and Sale and Transfer and Selling Restrictions”.

The Issuer may agree with any Dealer that Notes may be issued in a form not contemplated by the Terms and Conditions of the Notes herein, in which event a supplementary Prospectus, if appropriate, will be made available which will describe the effect of the agreement reached in relation to such Notes.

This Prospectus is issued in replacement of an earlier prospectus dated 28th April, 2004 as supplemented by a Prospectus Addendum dated 20th May, 2005.

*Arranger*

**ABN AMRO**

*Dealers*

**ABN AMRO**

**BNP PARIBAS**

**Credit Suisse First Boston**

**Fortis Bank**

**ING Wholesale Banking**

**Rabobank International**

**Banc of America Securities Limited**

**Citigroup**

**Deutsche Bank**

**HVB Corporates & Markets**

**JPMorgan**

**The Royal Bank of Scotland**

**This Prospectus comprises a base prospectus for the purposes of Article 5.4 of Directive 2003/71/EC (the “Prospectus Directive”).**

The Issuer accepts responsibility for the information contained in this Prospectus. To the best of the knowledge and belief of the Issuer (which has taken all reasonable care to ensure that such is the case) the information contained in this Prospectus is in accordance with the facts and does not omit anything likely to affect the import of such information.

Notice of the aggregate nominal amount of Notes, interest (if any) payable in respect of Notes, the issue price of Notes and any other terms and conditions not contained herein which are applicable to each Tranche of Notes will be set forth in the Final Terms which will be delivered to Euronext Amsterdam on or before the date of issue of the Notes of such Tranche.

The Programme provides that Notes may be listed or admitted to trading, as the case may be, on such other or further stock exchange or stock exchanges or markets as may be agreed between the Issuer and the relevant Dealer. The Issuer may also issue unlisted Notes.

This Prospectus is to be read in conjunction with all documents which are deemed to be incorporated herein by reference (see “Documents Incorporated by Reference”). This Prospectus shall be read and construed on the basis that such documents are incorporated in and form part of this Prospectus.

No person has been authorised by the Issuer to give any information or to make any representation not contained in or not consistent with this Prospectus or any other information supplied in connection with the Programme and, if given or made, such information or representation must not be relied upon as having been authorised by the Issuer or any of the Dealers.

Neither this Prospectus nor any other information supplied in connection with the Programme (i) is intended to provide the basis of any credit or other evaluation or (ii) should be considered as a recommendation by the Issuer or any of the Dealers that any recipient of this Prospectus or any other information supplied in connection with the Programme should purchase any Notes. Accordingly, no representation, warranty or undertaking, express or implied, is made and no responsibility is accepted by the Dealers, in their capacity as such, as to the accuracy or completeness of the information contained in this Prospectus or any other information provided by the Issuer. Each investor contemplating purchasing any Notes should make its own independent investigation of the financial condition and affairs, and its own appraisal of the creditworthiness, of the Issuer. Neither this Prospectus nor any other information supplied in connection with the Programme constitutes an offer or invitation by or on behalf of the Issuer or any of the Dealers to any person to subscribe for or to purchase any Notes.

The delivery of this Prospectus does not at any time imply that the information contained herein concerning the Issuer is correct at any time subsequent to the date hereof or that any other information supplied in connection with the Programme is correct as of any time subsequent to the date indicated in the document containing the same. The Dealers expressly do not undertake to review the financial condition or affairs of the Issuer during the life of the Programme. Investors should review, inter alia, the most recent financial statements of the Issuer when deciding whether or not to purchase any Notes.

The distribution of this Prospectus and the offer or sale of Notes may be restricted by law in certain jurisdictions. The Issuer and the Dealers do not represent that this Prospectus may be lawfully distributed, or that any Notes may be lawfully offered, in compliance with any applicable registration or other requirements in any such jurisdiction, or pursuant to an exemption available thereunder, or assume any responsibility for facilitating any such distribution or offering. In particular, no action has been taken by the Issuer or the Dealers which would permit a public offering of any Notes outside The Netherlands or distribution of this Prospectus in any jurisdiction where action for that purpose is required. Accordingly, no Notes may be offered or sold, directly or indirectly, and neither this Prospectus nor any advertisement or other offering material may be distributed or published in any jurisdiction, except under circumstances that will result in compliance with any applicable laws and regulations. Persons into whose possession this Prospectus or any Notes come must inform themselves about, and observe, any such restrictions. In particular, there are restrictions on the distribution of this Prospectus and the offer or sale of Notes in Japan, the European Economic Area (including, The Netherlands and the United Kingdom) and the United States (see “Subscription and Sale and Transfer and Selling Restrictions” below).

All references in this document to “U.S. dollars”, “U.S.\$” and “\$” refer to the currency of the United States of America, those to “euro”, “EUR” and “€” refer to the currency of the member states of the European Union participating in the economic and monetary union pursuant to the Treaty establishing the European Community, as amended, those to “Japanese yen”, “yen” and “¥” refer to the currency of Japan, those to “CHF” refer to the currency of Switzerland, and those to “Sterling” and “£” refer to the currency of Great Britain.

## U.S. INFORMATION

The Notes in bearer form are subject to U.S. tax law requirements and may not be offered, sold or delivered within the United States or its possessions or to U.S. persons, except in certain transactions permitted by U.S. tax regulations (see “Subscription and Sale and Transfer and Selling Restrictions”). Terms used in this paragraph have the meanings given to them by the U.S. Internal Revenue Code and the regulations promulgated thereunder.

This Prospectus is being submitted on a confidential basis in the United States to a limited number of QIBs and Institutional Accredited Investors (each as defined under “Form of the Notes”) for informational use solely in connection with the consideration of the purchase of the Notes being offered hereby. Its use for any other purpose in the United States is not authorised.

Registered Notes may be offered or sold within the United States only to QIBs or to Institutional Accredited Investors, in either case in transactions exempt from registration under the Securities Act. Each U.S. purchaser of Registered Notes is hereby notified that the offer and sale of any Registered Notes to it may be being made in reliance upon the exemption from the registration requirements of the Securities Act provided by Rule 144A under the Securities Act (“Rule 144A”).

Purchasers of Definitive IAI Registered Notes (as defined under “Form of the Notes”) will be required to execute and deliver an IAI Investment Letter (as defined under “Terms and Conditions of the Notes”). Each purchaser or holder of Definitive IAI Registered Notes, Notes represented by a Rule 144A Global Note or any Notes issued in registered form in exchange or substitution therefor (together “Legended Notes”) will be deemed, by its acceptance or purchase of any such Legended Notes, to have made certain representations and agreements intended to restrict the resale or other transfer of such Notes as set out in “Subscription and Sale and Transfer and Selling Restrictions”. Unless otherwise stated, terms used in this paragraph have the meanings given to them in “Form of the Notes”.

## NOTICE TO NEW HAMPSHIRE RESIDENTS

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

## AVAILABLE INFORMATION

To permit compliance with Rule 144A in connection with any resales or other transfers of Notes that are “restricted securities” within the meaning of the Securities Act, the Issuer has undertaken in an Amended and Restated Agency Agreement dated 3rd May, 2002, as amended and supplemented by the First Supplemental Agency Agreement (the “First Supplemental Agency Agreement”) dated 8th May, 2003, a Second Supplemental Agency Agreement (the “Second Supplemental Agency Agreement”) dated 28th April, 2004 and a Third Supplemental Agency Agreement dated 20th September, 2005 (together with the Amended and Restated Agency Agreement, the First Supplemental Agency Agreement and the Second Supplemental Agency Agreement, the “Agency Agreement”) to furnish, upon the request of a holder of such Notes or any beneficial interest therein, to such holder or to a prospective purchaser designated by him, the information required to be delivered under Rule 144A(d)(4) under the Securities Act if, at the time of the request, any of the Notes remain outstanding as “restricted securities” within the meaning of Rule 144(a)(3) of the Securities Act and the Issuer is neither a reporting company under Section 13 or 15(d) of the U.S. Securities Exchange Act of 1934, as amended (the “Exchange Act”) nor exempt from reporting pursuant to Rule 12g3-2(b) thereunder.

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To the extent that the provisions of Directive 2003/6/EC of the European Parliament and of the Council (the “Market Abuse Directive”) are required to be observed, in connection with the issue of any Tranche of Notes, the Dealer or Dealers named as the Stabilising Manager(s) (or persons acting on behalf of any Stabilising Manager(s)) in the applicable Final Terms may over-allot Notes (provided that, in the case of any Tranche of Notes to be listed or admitted to trading on Euronext Amsterdam or another regulated market, the aggregate principal amount of Notes allotted does not exceed 105 per cent. of the aggregate principal amount of the relevant Tranche) or effect transactions with a view to supporting the market price of the Notes at a level higher than that which might otherwise prevail. However, there is no assurance that the Stabilising Manager(s) (or persons acting on behalf of a Stabilising Manager) will undertake stabilisation action. Any such stabilisation action may begin on or after the date on which adequate public disclosure of the final terms (in the case of Notes convertible or exchangeable into shares or into other securities equivalent to shares) or terms (in all other cases) of the offer of the relevant Tranche of Notes is made and, if begun, may be ended at any time, but it must end no later than the earlier of 30 days after the issue date of the relevant Tranche of Notes and 60 days after the date of the allotment of the relevant Tranche of Notes.

To the extent that the provisions of the Market Abuse Directive are not required to be observed in connection with the issue of any Tranche of Notes, then in connection with the issue and distribution of any Tranche of Notes, the Dealer or Dealers named as the Stabilising Manager(s) (or persons acting on behalf of any Stabilising Manager(s)) in the applicable Final Terms may over-allot or effect transactions with a view to supporting the market price of the Notes at a level higher than that which might otherwise prevail. However, there may be no obligation on the Stabilising Manager(s) (or persons acting on behalf of a Stabilising Manager) to do this. Such stabilising, if commenced, may be discontinued at any time and must be brought to an end after a limited period. Such stabilising shall be in compliance with all relevant laws and regulations, including (for so long as applicable) Article 32 and Annex 6 of the Further Regulations on Market Conduct Supervision of the Securities Trade 2002 (*Nadere regeling gedragstoezicht effectenverkeer 2002*) as amended. If so required by applicable law or regulation, stabilising will in any event be brought to an end within 30 days after the Closing Date applicable to such Notes.

## SUMMARY OF THE PROGRAMME

**This summary must be read as an introduction to this Prospectus and any decision to invest in any Notes should be based on a consideration of this Prospectus as a whole, including the documents incorporated by reference. Following the implementation of the relevant provisions of the Prospectus Directive in each Member State of the European Economic Area no civil liability will attach to the Issuer in any such Member State in respect of this Summary, including any translation hereof, unless it is misleading, inaccurate or inconsistent when read together with the other parts of this Prospectus. Where a claim relating to information contained in this Prospectus is brought before a court in a Member State of the European Economic Area (an “EEA State”), the plaintiff may, under the national legislation of the EEA State where the claim is brought, be required to bear the costs of translating the Prospectus before the legal proceedings are initiated.**

Words and expressions defined in “Form of the Notes” and “Terms and Conditions of the Notes” below shall have the same meanings in this summary.

Issuer: Koninklijke KPN N.V.

### *History and development of the Issuer*

The Issuer was incorporated as a public limited liability company under the laws of the Netherlands on 1st January, 1989. On 28th June, 1998 its name was changed from Koninklijke PTT Nederland N.V. to Koninklijke KPN N.V. The Issuer has its corporate seat in The Hague, the Netherlands. It is registered under number 02045200 at the Commercial Register of the Chamber of Commerce for Haaglanden, the Hague, the Netherlands, and its executive offices are located at Maanplein 55, 2516 CK The Hague, the Netherlands.

The Issuer was incorporated with two main subsidiaries: PTT Telecom B.V., offering telecommunication services, and PTT Post B.V., serving as the primary postal company in the Netherlands. In the period from incorporation until the listing of its shares on Euronext Amsterdam in June 1994, the State of the Netherlands was its sole shareholder. On 29th June, 1998, PTT Post B.V. was split-off from the Issuer. At the end of 2004, the State held 20.69 per cent. of the Issuer’s outstanding shares. In January 2005, the State sold part of its interest and currently holds 14.25 per cent.

### *Business overview*

The Issuer offers telecommunication services to both consumers and businesses. The Issuer’s core activities are telephony and data services through its fixed network in the Netherlands, mobile telecom services in Germany, the Netherlands and Belgium and data services in Western Europe.

### *Business segments*

The Issuer divides its business into three segments:

- *Fixed division* – the Issuer offers voice and data services through its fixed network in the Netherlands and data services in Western Europe. It is the market leader in the major segments of the Dutch telecom market and it is actively growing its market share in the new IP and DSL markets.
- *Mobile division* – the Issuer is active as mobile telecommunication provider in Germany, the Netherlands and Belgium serving 17.2 million customers as of 31st December, 2004<sup>(1)</sup>.

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(1) On 28th June, 2005, we reached an agreement in principle to acquire Telfort, the Dutch mobile operator, with 2.4 million subscribers (see “Recent Developments” below).

- *Other activities* – the Issuer’s other activities include holding a 65% interest in Xantic<sup>(2)</sup>, a leading satellite communications provider, KPN retail and KPN sales (which serve as distribution channels), and the corporate centre which provides internal services for the Issuer and its subsidiaries.

New Issuer:	The Programme Agreement provides that, upon satisfaction of certain conditions precedent, a further issuer, being a subsidiary of the Issuer, may be joined as an issuer under the Programme. In such event, a new prospectus giving details of such new issuer will be prepared.
Description:	Global Medium Term Note Programme
Arranger:	ABN AMRO Bank N.V.
Dealers:	ABN AMRO Bank N.V. Banc of America Securities Limited Bayerische Hypo- und Vereinsbank AG BNP Paribas Citigroup Global Markets Limited Coöperatieve Centrale Raiffeisen-Boerenleenbank B.A. (Rabobank International) Credit Suisse First Boston (Europe) Limited Deutsche Bank AG, London Branch Fortis Bank nv-sa ING Bank N.V. J.P. Morgan Securities Ltd. The Royal Bank of Scotland plc
Issuing and Principal Paying Agent:	Citibank, N.A.
Registrar, Exchange Agent and Transfer Agent:	Citibank, N.A.
Size:	Up to €10,000,000,000 (or its equivalent in other currencies calculated as described herein) outstanding at any time. The Issuer may increase the amount of the Programme in accordance with the terms of the Programme Agreement.
Distribution:	Notes may be distributed by way of private or public placement and in each case on a syndicated or non-syndicated basis.
Currencies:	Subject to any applicable legal or regulatory restrictions, such currencies as may be agreed between the Issuer and the relevant Dealer, including, without limitation, Australian dollars, Canadian dollars, Danish kroner, euro, Hong Kong dollars, New Zealand dollars, Sterling, Swedish kronor, Swiss francs, United States dollars and Japanese yen.
Certain restrictions:	Each issue of Notes denominated in a currency in respect of which particular laws, guidelines, regulations, restrictions or reporting requirements apply will only be issued in circumstances which comply with such laws, guidelines, regulations, restrictions or reporting requirements from time to time (see “Subscription and Sale and Transfer and Selling Restrictions”) including the following restrictions applicable at the date of this Prospectus.

(2) On 15th August, 2005, the Issuer signed a letter of intent with Telstra regarding the sale of its interest in Xantic, which is expected to close towards the end of 2005 or in early 2006 (see “Recent Developments” below).

*Notes having a maturity of less than one year*

Notes having a maturity of less than one (1) year will, if the proceeds of their issue are accepted in the United Kingdom, constitute deposits for the purposes of the prohibition on accepting deposits contained in Section 19 of the Financial Services and Markets Act 2000 unless they are issued to a limited class of professional investors and have a redemption value of at least £100,000 or its equivalent, see “Subscription and Sale and Transfer and Selling Restrictions”.

- Redenomination:** The applicable Final Terms may provide that Notes may be redenominated in euro. The relevant provisions applicable to any such redenomination are contained in Condition 4.
- Maturities:** Any maturity, subject to applicable laws, regulations and restrictions and subject, in the case of Senior Notes, to a minimum maturity of one month.
- Issue Price:** Notes may be issued on a fully-paid or a partly-paid basis and at an issue price which is at par or at a discount to, or premium over, par.
- Form of Notes:** The Notes will be issued in bearer or registered form as described in “Form of the Notes”. Registered Notes will not be exchangeable for Bearer Notes and vice versa.
- Fixed Rate Notes:** Fixed interest will be payable on the date or dates specified in the applicable Final Terms and on redemption, and will be calculated on the basis of such Day Count Fraction as may be agreed between the Issuer and the relevant Dealer.
- Floating Rate Notes:** Floating Rate Notes will bear interest either at a rate determined on the same basis as the floating rate under a notional interest-rate swap transaction in the relevant Specified Currency governed by an agreement incorporating the 2000 ISDA Definitions (as published by the International Swaps and Derivatives Association, Inc. and as amended and updated as at the Issue Date of the first Tranche of the Notes of the relevant Series) or on the basis of a reference rate appearing on the agreed screen page of a commercial quotation service or on such other basis as may be agreed between the Issuer and the relevant Dealer (as indicated in the applicable Final Terms).
- The Margin (if any) relating to such floating rate will be specified in the applicable Final Terms.
- Index Linked Notes:** Payments in respect of interest on Index Linked Interest Notes or in respect of principal on Index Linked Redemption Amount Notes will be calculated by reference to such index and/or formula or to such other factors as the Issuer and the relevant Dealer may agree.
- Other provisions in relation to Floating Rate Notes and Index Linked Interest Notes:** Floating Rate Notes and Index Linked Interest Notes may also have a maximum interest rate, a minimum interest rate or both.
- Interest on Floating Rate Notes and Index Linked Interest Notes in respect of each Interest Period, as selected prior to issue by the Issuer and the relevant Dealer, will be payable on the Interest Payment Dates specified in, or determined pursuant to, the applicable Final Terms and will be calculated on the basis of the Day Count Fraction so specified.
- Dual Currency Notes:** Payments (whether in respect of principal or interest and whether at maturity or otherwise) in respect of Dual Currency Notes will be made in such currencies, and based on such rates of exchange, as may be specified in the applicable Final Terms.

Zero Coupon Notes:	Zero Coupon Notes will be offered and sold at a discount to their nominal amount and will not bear interest.
Redemption:	<p>The applicable Final Terms will indicate either that the Notes cannot be redeemed prior to their stated maturity (other than in specified instalments (see below), if applicable, or for taxation reasons or following an Event of Default) or that such Notes will be redeemable at the option of the Issuer and/or the Noteholders upon giving not less than 15 nor more than 30 days' irrevocable notice (or such other notice period (if any) as is indicated in the applicable Final Terms) to the Noteholders or the Issuer, as the case may be, on a date or dates specified prior to such stated maturity and at a price or prices and on such terms as are indicated in the applicable Final Terms.</p> <p>The applicable Final Terms may provide that Notes may be repayable in two or more instalments in such amounts and on such dates as indicated in it.</p> <p>Notes having a maturity of less than one (1) year may be subject to restrictions on their denomination and distribution, see "Certain restrictions – Notes having a maturity of less than one year" above.</p>
Denomination of Notes:	The Notes will be issued in such denominations as may be specified in the applicable Final Terms save that the minimum denomination of each Note will be such as may be allowed or required from time to time by the relevant central bank (or equivalent body) or any laws or regulations applicable to the relevant Specified Currency, see "Certain restrictions – Notes having a maturity of less than one year" above.
Taxation:	Payments in respect of the Notes will as specified in the applicable Final Terms be made either subject to withholding of applicable Dutch taxes (if any) or without withholding or deduction for or on account of taxes levied in The Netherlands, subject to certain exceptions (including the IPMA Standard EU Exception) as provided in Condition 8. If the applicable Final Terms provides that payments are to be made subject to withholding of applicable Dutch taxes (if any), it will also specify that Condition 7(b) will not apply to the Notes.
Negative Pledge:	See Condition 3.
Cross Default:	See Condition 10(iii).
Status of the Senior Notes:	The Senior Notes will constitute direct, unsecured and unsubordinated obligations of the Issuer and will rank <i>pari passu</i> without any preference among themselves and (with the exception of obligations in respect of national and local taxes and certain other statutory exceptions) equally with all other unsecured and unsubordinated obligations of the Issuer.
Status and other terms of Subordinated Notes:	The status of each Tranche of Subordinated Notes and any negative pledge and events of default applicable to Subordinated Notes will be set out in the applicable Final Terms.
Risk Factors:	The Issuer believes that there are a number of factors that may affect its ability to fulfil its obligations under the Notes issued under the Programme, including: competition from a variety of competitors, rapid technological changes in the markets in which the Issuer operates (requiring it to make substantial investments in its business on an ongoing basis to grow and remain competitive) and dependence on relationships with various partners and suppliers. Potential investors should refer to "Risk Factors" for a complete description of these risk factors and other risk factors which may affect the Issuer's ability to fulfil its obligations under the Notes.

For a description of the factors that are material for the purpose of assessing the market risks associated with Notes issued under the Programme, see “Risk Factors” below.

- Substitution: The Issuer may substitute for itself as principal debtor under the Notes any company of which more than 90 per cent. of the shares are directly or indirectly held by the Issuer (a “Substituted Debtor”) on the terms and in the manner provided in Condition 17.
- If a Substituted Debtor becomes the principal debtor in respect of any of the Notes, it will publish a supplement to this Prospectus in accordance with the rules of Euronext Amsterdam and/or the Competent Authority (as defined below), as the case may be.
- Listing and admission to trading: Application has been made to Euronext Amsterdam for Notes issued under the Programme up to the expiry of 12 months from the date of this Prospectus to be admitted to trading on Euronext Amsterdam.
- The Notes may be listed on such other or further stock exchange or stock exchanges or markets as may be agreed between the Issuer and the relevant Dealer in relation to each issue. Unlisted Notes may also be issued. The applicable Final Terms will state whether or not the Notes are to be listed or admitted to trading, as the case may be, and, if so, on which stock exchange and/or markets.
- Governing Law: The Notes will be governed by, and construed in accordance with, the laws of The Netherlands.
- Selling Restrictions: There are selling restrictions in relation to Japan, the European Economic Area (including The Netherlands and the United Kingdom) and the United States, and such other restrictions as may be required in connection with the offering and sale of a particular Tranche of Notes. See “Subscription and Sale and Transfer and Selling Restrictions” below.

## RISK FACTORS

*The Issuer believes that the following factors may affect its ability to fulfil its obligations under Notes issued under the Programme. Most of these factors are contingencies which may or may not occur and the Issuer is not in a position to express a view on the likelihood of any such contingency occurring.*

*In addition, factors which are material for the purpose of assessing the market risks associated with Notes issued under the Programme are also described below.*

*The Issuer believes that the factors described below represent the principal risks inherent in investing in Notes issued under the Programme, but the inability of the Issuer to pay interest, principal or other amounts on or in connection with any Notes may occur for other reasons and the Issuer does not represent that the statements below regarding the risks of holding any Notes are exhaustive. Prospective investors should also read the detailed information set out elsewhere in this Prospectus and reach their own views prior to making any investment decision.*

*All references to “we”, “us” and “our” under “Factors that may affect the Issuer’s ability to fulfil its obligations under Notes issued under the Programme” are references to the Issuer.*

### **Factors that may affect the Issuer’s ability to fulfil its obligations under Notes issued under the Programme**

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

***The markets in which we operate are highly competitive and our principal businesses face significant competition.***

If we are unable to compete effectively, this could lead to loss of revenue, reduced margins, loss of market share and adversely affect our financial position.

Our Fixed division faces heightened competitive pressures as a result of regulatory changes, such as those allowing for Carrier (Pre)Select services, number portability and main distribution frame access, which have increased the ease with which our customers can use the services of other telecommunications carriers in preference to our own. These competitive pressures have resulted in declines in prices and in our market share in the last three years and may result in lower revenues and profits from our Fixed division business in the future. Our Fixed division business also faces increased competition from both other fixed-line operators and from mobile operators due to a shift in usage patterns away from fixed-line and in favor of mobile usage, as well as from leased line to IP networks. Many of our competitors are able to charge lower prices than us. Our regulatory tariffs limit the amounts and kinds of discounts we can give customers. Customer care and satisfaction is increasingly important given the increased competition. If we do not succeed in improving customer satisfaction, we could be at a further competitive disadvantage, which may impact our financial position.

Our Mobile division business faces increased competitive pressure from existing and new market participants in all our markets. Competition based on price, subscription options offered, coverage and service quality remains intense, and we expect pressure on calling rates to remain high as we compete with other operators for market share. Our traditional mobile markets (voice) have become increasingly saturated. As a result, the focus of competition is shifting from customer acquisition to customer retention and customer satisfaction efforts. Substantial expenses are required for customer retention and satisfaction efforts, and significant customer defections would have an adverse effect on our financial position.

We face competition from a variety of competitors, including, but not limited to, existing fixed and mobile network operators, operators offering new mobile network services such as wireless fidelity services (Wi-Fi), providers of higher speed xDSL services, and others. Some of these competitors are smaller and may be

more flexible and responsive than us. Other competitors may operate on a broader scale and have more financial resources and capital at their disposal, enabling them to compete more effectively than us, for instance, in terms of price, time-to-market with new products and services, network quality and network rollout, and customer care and satisfaction. For example, our mobile subsidiaries E-Plus in Germany and BASE in Belgium are both the third largest operator in their respective markets, with the top two operators having a significantly higher market share and an ability to exert significant influence over the market. As a result, our subsidiaries may be at a competitive disadvantage and could rapidly lose market share.

Our public image is important to our sales, marketing and customer relation efforts. Any damage to our image, whether as a result of corporate actions, developments or particular business units or otherwise, could adversely affect our market position and ultimately harm our financial results.

***Regulatory decisions and changes in the regulatory environment could adversely affect our business.***

In our Fixed division, most of our network activities in the Netherlands are overseen by significant regulatory bodies. 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 the 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. These regulations may impact our financial position, the severity of competition and our future profitability. For information about our investigation into certain inappropriate discounting practices by our fixed division, see ‘Operating Results—Segmental Results of Operations—Fixed Division—Discounts investigation’ as set out in the 2004 Form 20-F (as defined in “Documents Incorporated by Reference” below) which is incorporated by reference into this Prospectus.

In our Mobile division, we have to comply with an extensive range of requirements regarding the licensing, construction and operation of our mobile 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 these countries 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. Additionally, decisions by regulators could further adversely affect the pricing for services we offer.

The amendment act implementing the new European directives regarding Open Network Provisions became effective in the spring of 2004. These directives set out a framework within which national regulators may impose ex ante regulations on companies with an individual or collective significant market power in certain relevant markets, such as the markets for wholesale broadband access (bit-stream) and voice call termination on individual mobile networks as predefined by the European Commission. The Dutch regulator OPTA has defined 18 markets in the Netherlands. All these markets are relevant for us. This will lead to further regulation of our business and might adversely affect us.

***The markets in which we operate undergo rapid technological changes, requiring us to make substantial investments in our business on an ongoing basis to grow and remain competitive.***

Since our markets are undergoing rapid technological change, our future success depends, in part, on our ability to anticipate and adapt in a timely manner to those technological changes. To remain competitive, we must continually improve the speed and features of our existing products and services and develop attractive new products and services for our customers, such as General Packet Radio Service (GPRS) and UMTS technologies and i-mode services. We may not succeed in developing, introducing or improving these items in an economical or timely manner, or at all. Our competitors may be able to improve existing products and services or develop and introduce new products and services faster than we are able to. The changes require substantial ongoing investments if we are to achieve organic growth and remain competitive. We must also correctly estimate customer demand, and there is the risk that the new products and services introduced by competitors will be preferred over our new products and services. This could adversely affect our financial position.

***We have made substantial investments in UMTS licenses in our core markets. We may not generate a sufficient return on these investments and our depreciation, amortization and other charges increased substantially and will increase further, because a large part of the network is already operational.***

We have made substantial investments in UMTS licenses in our core markets. There may be significant delays in receiving the requisite number and type of handsets and equipment needed for UMTS products and services. The size of the market for these products and services is as yet unknown and may fall short of expectations as UMTS technology may prove not to be superior to existing or other future technologies. We cannot be certain that the demand for UMTS services will justify the related costs. In some locations, the investments, although required under the licenses, may not be commercially desirable or lack a matching customer demand. In addition, we have a number of significant competitors in each of our geographic markets. Our competitors may be able to build out their UMTS networks more economically or quickly than we can. This could place us at a competitive disadvantage in providing UMTS services in the relevant market. In Germany, we could also be at a disadvantage if 'dual use frequencies' are granted, allowing the use of 900 MHz frequencies for UMTS. While network sharing is intended to reduce costs, we cannot give any assurance that this will be the case or that we will be able to make such network sharing work commercially or technically. If our UMTS strategy is not successful, our financial position as well as our business strategy may be adversely affected.

Based on regulatory requirements, we expect substantial capital expenditures on the rollout of our UMTS networks. In the second half of 2004, we have begun recognizing substantial amortization charges with respect to these licenses and investments and we expect these charges to continue to increase. In addition, we expect to incur significant marketing costs and other costs in relation to the launch of our UMTS services. As a result, our net income can be expected to decrease except to the extent enhanced earnings from UMTS networks offset such charges.

***The ongoing and significant changes in our business may be disadvantageous for us and may lead to a decline in our operating results.***

Due to the introduction of carrier preselection and Internet originating services (whereby Internet service providers can establish a direct billing relationship with their customers for Internet usage), the traffic volumes in our traditional fixed telephony services are shifting towards our carrier services and Internet providers, which generate lower revenues and margins. Furthermore, our number of connected households is decreasing as a result of substitutions of fixed lines by mobile connections and increased competition from other fixed-lined operators. However, growth in the traditional mobile telecommunications industry has slowed significantly. In addition, mobile customer retention costs have increased and may continue to increase as the trend towards more frequent replacement of handsets shortens the payback period for handset subsidies. Mobile customers are also migrating towards cheaper service solutions. Our financial position, which is increasingly dependent on the mobile business, may be adversely affected if the mobile telecommunications markets in which we operate do not expand, or we are unable to retain our existing customers, stimulate increases in customer usage, control customer retention costs, and maintain or increase prices.

Internet related traffic volume has shown substantial growth during the last few years. This has led to a situation in which a substantial percentage of our local traffic is Internet related. Future developments of Internet applications or content may cause increased bandwidth demand. As the tariffs for Internet related traffic currently are relatively low, future investments in our infrastructure to address increased demand may not yield the levels of return that we have enjoyed in the past, which could lead to deteriorating margins.

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

Our regular review of the carrying value of our assets (including our intangible, tangible and financial fixed assets) has resulted in significant impairments in 2002, and we may in the future be required to recognize additional impairment charges. Events in the technology and telecommunications markets, including significant declines in stock prices, market capitalization and credit ratings of other participants, as well as the ongoing review and refinement of our business plans, have resulted, and may in the future result, in

substantial impairment write-downs of our intangible or other assets. In addition, we have been recognizing, and may be required in the future to recognize, increased depreciation and amortization charges if we determine the useful lives of our fixed assets to be shorter than originally expected.

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

Our businesses depend upon our ability to obtain adequate supplies of telecommunications equipment and related software, our contractors' ability to build and roll out telecommunications networks on schedule, and our suppliers' ability to deliver dependable technical support. Due to downturns in economic conditions, some of our suppliers may cease to do business. We cannot be certain that we will be able to obtain quality telecommunications equipment and support from alternative suppliers, particularly in relation to new technologies, on a timely basis if our existing suppliers are unable to satisfy our requirements. This could lead to an interruption in the operation and build-out of our networks, which may impact our financial position and results of operations. In addition, as part of our cost reduction program we have sold a substantial part of what we considered to be our non-core assets. A significant part of the services previously rendered to us by these non-core assets are now provided to us by new owners of the assets, or other external suppliers. We depend on our relationship with these suppliers, especially Atos Origin, for the continuation of these services, some of which are vital to our business.

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

Our ability to operate our businesses depends significantly upon the performance of our technical infrastructure. Failures in power supply by power companies are increasing in the Netherlands and may harm our technical infrastructure. Although our critical infrastructure equipment has power interruption backup facilities, these facilities may prove not to be adequate during a prolonged interruption. Our technical infrastructure is also vulnerable to damage or interruption by floods, fires, telecommunication failures and similar events. It also may be subject to break-ins, sabotage, terrorism, vandalism and similar misconduct. Furthermore, the security of our network and related applications may be inadequate, which may result in access and misuse by hackers and other unauthorized users and may adversely affect our operations. The occurrence of a natural disaster, other unanticipated problems at our facilities or any other damage to, or misuse of or failure of our systems could result in interruptions in our service. System failures, including failure of our network and the networks used by our suppliers, and hardware or software failures or computer viruses, could also affect the quality of our services and cause temporary service interruptions, resulting in customer dissatisfaction, penalties and reduced traffic volumes and revenue. Any of these factors could impact our business and financial position.

***Our Mobile division's business may be hampered as a result of more stringent regulation of the electromagnetic field strengths of mobile transmission equipment and alleged health risks of mobile telephones and transmission equipment.***

Our Mobile division's businesses are increasingly subject to more stringent regulation of electromagnetic field strengths of mobile transmission equipment. Regulators have already imposed restrictions and may even impose greater restrictions on the construction of base station towers, the upgrade of networks and the replacement of existing antennae and other related infrastructure. As a result, we are experiencing difficulties and delays in obtaining building permits for our mobile transmission equipment. This may prevent us from completing our network build-outs, providing new services and fulfilling UMTS license terms. In addition, it may become more difficult to renew leases for existing base stations and other equipment, with the cost of such leases increasing. Any of these factors could impact our business and financial position and may place us at a disadvantage in relation to our competitors.

Furthermore, various reports have alleged that certain radio frequency emissions from wireless handsets and mobile transmission equipment may be linked to various health concerns and may interfere with various electronic devices. We cannot rule out that exposure to electromagnetic fields or other emissions originating

from wireless handsets will be identified as a health risk in the future. Any potential or perceived health risks associated with mobile communication equipment may result in a lower number of customers, reduced usage per customer or potential litigation or consumer liability for us.

***Future downturns in financial markets may result in further shortfalls for our pension funds and additional funding obligations for us. Any pension funding obligations may impact our financial position.***

We are obliged to fund any shortfall in our pension funds if coverage ratios fall below certain thresholds. We estimate that as of 31st December, 2004 the total shortfall equaled approximately EUR 250 million, which has to be paid in 5 years. In accordance with the current payment schedule, an amount of EUR 21 million was paid in 2004. In the second quarter of 2005 a pension charge of €50 million has been paid, based on the coverage ratio of the pension funds in December 2004. Each year, the amount of the pension shortfall is recalculated taking into account the then applicable coverage. If financial markets do not recover in future years and coverage ratios fail to improve significantly, then the obligation to fund the shortfall will continue to exist and may increase.

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

Since early 2000, world stock markets have experienced substantial declines and volatility that has affected the market prices of equity securities of many telecommunications companies, including our company. This has led to large swings in trading prices in short periods of time and has not always been related to the operating performance of the companies concerned. The market price or value of our shares has been volatile.

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

- the general state of the securities markets, with particular emphasis on the European telecommunications sector and the international political and economic conditions;
- competition, regulatory conditions and the status of telecommunications liberalization in Europe;
- the build-out of UMTS networks, the development of compatible handsets, delays in the roll-out of UMTS services and networks and costs relating thereto;
- competitors' positions in the market;
- changes in the financial estimates by securities analysts;
- our earnings releases and the earnings releases of our competitors;
- the outcome of legal proceedings;
- fluctuations in foreign exchange rates and interest rates; and
- international political and economic conditions.

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

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

For a discussion of current legal proceedings, please refer to the section titled 'Commitments, contingencies and legal proceedings' in our Consolidated Financial Statements and to 'Regulatory Developments' below.

***We may be subject to additional tax liabilities in the future, including as a result of audits of our tax returns.***

The tax authorities may audit our tax returns and may disagree with the positions taken on those returns. We reached a significant settlement with the Dutch tax authorities regarding the tax consequences of the legal restructuring of our German mobile activities as well as the financial restructuring of KPN Mobile. For more information please refer to Note 8 of the Consolidated Financial Statements.

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

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

Financing and refinancing conditions will largely depend on future market conditions, our credit ratings, the telecommunication industry ratings, and our results of operations and future prospects, and we cannot be certain that financing will be available to us on favorable terms, or at all. Our credit rating may be impacted by the rapid technological and industry developments, our operational performance and our competitive and financial position going forward. If we cannot raise new funding, we may be unable to pursue growth opportunities or to refinance our existing indebtedness.

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

Effective internal controls are necessary for us to provide reliable financial reports and effectively prevent fraud. If we cannot provide reliable financial reports or prevent fraud, our financial results could be harmed.

We devote significant attention to establishing and maintaining effective internal controls. We are in the process of documenting, reviewing and, if appropriate, improving our internal controls and procedures in connection with Section 404 of the Sarbanes Oxley Act of 2002, which requires annual management assessments of the effectiveness of our internal controls over financial reporting and a report by our independent auditors addressing these assessments. Both we and our independent auditors are in the process of testing our internal controls in connection with the Section 404 requirements. We could, as part of this documentation and testing process, identify areas for further attention or improvement. Implementing any appropriate changes to our internal controls may require specific compliance training of our directors, officers and employees, entail substantial costs in order to modify our existing accounting systems, and take a significant period of time to complete.

We cannot be certain that these measures will ensure that we implement and maintain adequate controls over our financial reporting processes and related Section 404 reporting requirements. Any failure to implement required new or improved controls, or difficulties encountered in their implementation, could harm our financial results or cause us to fail to meet our reporting obligations. Any such failure could also adversely affect our assessment of the effectiveness of our 'internal control over financial reporting' that will be required when the Section 404 requirements become applicable to us. Inferior internal controls could also cause investors to lose confidence in our reported financial information, which could have a negative effect on the market price of our securities.

**Factors which are material for the purpose of assessing the market risks associated with Notes issued under the Programme**

***The Notes may not be a suitable investment for all investors***

Each potential investor in the Notes must determine the suitability of that investment in light of its own circumstances. In particular, each potential investor should:

- (i) have sufficient knowledge and experience to make a meaningful evaluation of the Notes, the merits and risks of investing in the Notes and the information contained or incorporated by reference in this Prospectus or any applicable supplement;
- (ii) have access to, and knowledge of, appropriate analytical tools to evaluate, in the context of its particular financial situation, an investment in the Notes and the impact the Notes will have on its overall investment portfolio;
- (iii) have sufficient financial resources and liquidity to bear all of the risks of an investment in the Notes, including Notes with principal or interest payable in one or more currencies, or where the currency for principal or interest payments is different from the potential investor's currency;
- (iv) understand thoroughly the terms of the Notes and be familiar with the behaviour of any relevant indices and financial markets; and
- (v) be able to evaluate (either alone or with the help of a financial adviser) possible scenarios for economic, interest rate and other factors that may affect its investment and its ability to bear the applicable risks.

Some Notes are complex financial instruments. Sophisticated institutional investors generally do not purchase complex financial instruments as stand-alone investments. They purchase complex financial instruments as a way to reduce risk or enhance yield with an understood, measured, appropriate addition of risk to their overall portfolios. A potential investor should not invest in Notes which are complex financial instruments unless it has the expertise (either alone or with a financial adviser) to evaluate how the Notes will perform under changing conditions, the resulting effects on the value of the Notes and the impact this investment will have on the potential investor's overall investment portfolio.

#### ***Risks related to the structure of a particular issue of Notes***

A wide range of Notes may be issued under the Programme. A number of these Notes may have features which contain particular risks for potential investors. Set out below is a description of the most common such features:

##### *Notes in registered form*

Registered Notes are subject to the restrictions on transfer set out in them and will bear a legend regarding those restrictions, see further "Subscription and Sale and Transfer and Selling Restrictions".

##### *Notes subject to optional redemption by the Issuer*

An optional redemption feature of Notes is likely to limit their market value. During any period when the Issuer may elect to redeem Notes, the market value of those Notes generally will not rise substantially above the price at which they can be redeemed. This also may be true prior to any redemption period.

The Issuer may be expected to redeem Notes when its cost of borrowing is lower than the interest rate on the Notes. At those times, an investor generally would not be able to reinvest the redemption proceeds at an effective interest rate as high as the interest rate on the Notes being redeemed and may only be able to do so at a significantly lower rate. Potential investors should consider reinvestment risk in light of other investments available at that time.

##### *Index Linked Notes and Dual Currency Notes*

The Issuer may issue Notes with principal or interest determined by reference to an index or formula, to changes in the prices of securities or commodities, to movements in currency exchange rates or other factors (each, a "Relevant Factor"). In addition, the Issuer may issue Notes with principal or interest payable in one or more currencies which may be different from the currency in which the Notes are denominated. Potential investors should be aware that:

- (i) the market price of such Notes may be very volatile;

- (ii) they may receive no interest;
- (iii) payment of principal or interest may occur at a different time or in a different currency than expected;
- (iv) they may lose all or a substantial portion of their principal;
- (v) a Relevant Factor may be subject to significant fluctuations that may not correlate with changes in interest rates, currencies or other indices;
- (vi) if a Relevant Factor is applied to Notes in conjunction with a multiplier greater than one or contains some other leverage factor, the effect of changes in the Relevant Factor on principal or interest payable likely will be magnified; and
- (vii) the timing of changes in a Relevant Factor may affect the actual yield to investors, even if the average level is consistent with their expectations. In general, the earlier the change in the Relevant Factor, the greater the effect on yield.

Additional risk factors in relation to issues of Index Linked Notes and Dual Currency Notes may be included in the applicable Final Terms or in a supplement to the Prospectus, as the case may be.

#### *Partly-paid Notes*

The Issuer may issue Notes where the issue price is payable in more than one instalment. Failure to pay any subsequent instalment could result in an investor losing all of his investment.

#### *Variable Rate Notes with a multiplier or other leverage factor*

Notes with variable interest rates can be volatile investments. If they are structured to include multipliers or other leverage factors, or caps or floors, or any combination of those features or other similar related features, their market values may be even more volatile than those for securities that do not include those features.

#### *Inverse Floating Rate Notes*

Inverse Floating Rate Notes have an interest rate equal to a fixed rate minus a rate based upon a reference rate such as LIBOR. The market values of those Notes typically are more volatile than market values of other conventional floating rate debt securities based on the same reference rate (and with otherwise comparable terms). Inverse Floating Rate Notes are more volatile because an increase in the reference rate not only decreases the interest rate of the Notes, but may also reflect an increase in prevailing interest rates, which further adversely affects the market value of these Notes.

#### *Fixed/Floating Rate Notes*

Fixed/Floating Rate Notes may bear interest at a rate that converts from a fixed rate to a floating rate, or from a floating rate to a fixed rate. Where the Issuer has the right to effect such a conversion, this will affect the secondary market and the market value of the Notes since the Issuer may be expected to convert the rate when it is likely to produce a lower overall cost of borrowing. If the Issuer converts from a fixed rate to a floating rate in such circumstances, the spread on the Fixed/Floating Rate Notes may be less favourable than then prevailing spreads on comparable Floating Rate Notes tied to the same reference rate. In addition, the new floating rate at any time may be lower than the rates on other Notes. If the Issuer converts from a floating rate to a fixed rate in such circumstances, the fixed rate may be lower than then prevailing rates on its Notes.

#### *Notes issued at a substantial discount or premium*

The market values of securities issued at a substantial discount or premium from their principal amount tend to fluctuate more in relation to general changes in interest rates than do prices for conventional interest-bearing securities. Generally, the longer the remaining term of the securities, the greater the price volatility as compared to conventional interest-bearing securities with comparable maturities.

### *The Issuer's obligations under Subordinated Notes are subordinated*

The Issuer's obligations under Subordinated Notes will be unsecured and subordinated and will rank junior in priority of payment to those liabilities described in full in the applicable Final Terms. Although Subordinated Notes may pay a higher rate of interest than comparable Notes which are not subordinated, there is a real risk that an investor in Subordinated Notes will lose all or some of his investment should the Issuer become insolvent.

### ***Risks related to Notes generally***

Set out below is a brief description of certain risks relating to the Notes generally:

#### *Modification, waivers and substitution*

The conditions of the Notes contain provisions for calling meetings of Noteholders to consider matters affecting their interests generally. These provisions permit defined majorities to bind all Noteholders including Noteholders who did not attend and vote at the relevant meeting and Noteholders who voted in a manner contrary to the majority.

The conditions of the Notes also provide that the Principal Paying Agent may, without the consent of Noteholders, agree to (i) any modification (not being a modification requiring the approval of a meeting of Noteholders) of any of the provisions of Notes which is not materially prejudicial to the interests of the Noteholders or (ii) any modification of the Notes which is of a formal, minor or technical nature or is made to correct a manifest error or to comply with mandatory provisions of law or (iii) the substitution of another company as principal debtor under any Notes in place of the Issuer, in the circumstances described in Condition 17 of the Conditions of the Notes.

#### *EU Savings Directive*

If, following implementation of the Directive on the taxation of savings income (see "Taxation – Interest on the Notes – EU Savings Directive" below), a payment were to be made or collected through a Member State which has opted for a withholding system and an amount of, or in respect of tax were to be withheld from that payment, neither the Issuer nor any Paying Agent nor any other person would be obliged to pay additional amounts with respect to any Note as a result of the imposition of such withholding tax. If a withholding tax is imposed on payment made by a Paying Agent following implementation of the Directive, the Issuer will be required to maintain a Paying Agent in a Member State that will not be obliged to withhold or deduct tax pursuant to the Directive.

#### *Change of law*

The conditions of the Notes are based on Dutch law in effect as at the date of this Prospectus. No assurance can be given as to the impact of any possible change to Dutch law or administrative practice after the date of this Prospectus.

### ***Risks related to the market generally***

Set out below is a brief description of the principal market risks, including liquidity risk, exchange rate risk, interest rate risk and credit risk:

#### *The secondary market generally*

Notes may have no established trading market when issued, and one may never develop. If a market does develop, it may not be very liquid. Therefore, investors may not be able to sell their Notes easily or at prices that will provide them with a yield comparable to similar investments that have a developed secondary market. This is particularly the case for Notes that are especially sensitive to interest rate, currency or market risks, are designed for specific investment objectives or strategies or have been structured to meet the investment requirements of limited categories of investors. These types of Notes generally would have a

more limited secondary market and more price volatility than conventional debt securities. Illiquidity may have a severely adverse effect on the market value of Notes.

*Exchange rate risks and exchange controls*

The Issuer will pay principal and interest on the Notes in the Specified Currency. This presents certain risks relating to currency conversions if an investor's financial activities are denominated principally in a currency or currency unit (the "Investor's Currency") other than the Specified Currency. These include the risk that exchange rates may significantly change (including changes due to devaluation of the Specified Currency or revaluation of the Investor's Currency) and the risk that authorities with jurisdiction over the Investor's Currency may impose or modify exchange controls. An appreciation in the value of the Investor's Currency relative to the Specified Currency would decrease (1) the Investor's Currency-equivalent yield on the Notes, (2) the Investor's Currency-equivalent value of the principal payable on the Notes and (3) the Investor's Currency-equivalent market value of the Notes.

Government and monetary authorities may impose (as some have done in the past) exchange controls that could adversely affect an applicable exchange rate. As a result, investors may receive less interest or principal than expected, or no interest or principal.

*Interest rate risks*

Investment in Fixed Rate Notes involves the risk that subsequent changes in market interest rates may adversely affect the value of the Fixed Rate Notes.

*Credit ratings may not reflect all risks*

One or more independent credit rating agencies may assign credit ratings to the Notes. The ratings may not reflect the potential impact of all risks related to structure, market, additional factors discussed above, and other factors that may affect the value of the Notes. A credit rating is not a recommendation to buy, sell or hold securities and may be revised or withdrawn by the rating agency at any time.

*Legal investment considerations may restrict certain investments*

The investment activities of certain investors are subject to legal investment laws and regulations, or review or regulation by certain authorities. Each potential investor should consult its legal advisers to determine whether and to what extent (1) Notes are legal investments for it, (2) Notes can be used as collateral for various types of borrowing and (3) other restrictions apply to its purchase or pledge of any Notes. Financial institutions should consult their legal advisers or the appropriate regulators to determine the appropriate treatment of Notes under any applicable risk-based capital or similar rules.

## DOCUMENTS INCORPORATED BY REFERENCE

The following documents which have previously been published or are published simultaneously with this Prospectus and have been filed with the Netherlands Authority for the Financial Markets (*Autoriteit Financiële Markten*) (the “Competent Authority”) shall be deemed to be incorporated in, and to form part of, this Prospectus:

- (a) the Articles of Association of the Issuer;
- (b) the publicly available consolidated audited annual financial statements of the Issuer for the three financial years ended 31st December, 2004, 2003 and 2002 prepared in accordance with Dutch GAAP;
- (c) the consolidated unaudited quarterly report of the Issuer for the three months ended 31st March, 2005 prepared in accordance with International Financial Reporting Standards (“IFRS”);
- (d) the consolidated unaudited semi-annual report of the Issuer for the six months ended 30th June, 2005 prepared in accordance with IFRS;
- (e) the Issuer’s annual report on Form 20-F (the “2004 Form 20-F”) for the fiscal year ended 31st December, 2004 filed with the U.S. Securities and Exchange Commission and any supplements and amendments thereto published prior to the date of this Prospectus; and
- (f) the Issuer’s unaudited consolidated balance sheet as at 1st January, 2004, unaudited consolidated balance sheet as at 31st December, 2004, unaudited consolidated balance sheet as at 1st January, 2005, unaudited consolidated income statement and cash flow statements for the first, second, third and fourth quarters of 2004 and for the full year 2004, each prepared in accordance with IFRS.

The Issuer will provide, without charge, upon request of such person, a copy of any or all of the documents which are incorporated herein by reference. Requests for such documents should be directed to the Issuer at its registered office set out at the end of this Prospectus. In addition, such documents will be available from the specified office in The Netherlands of ABN AMRO Bank N.V. in its capacity as Paying Agent.

The Issuer will, in connection with the listing of the Notes on Euronext Amsterdam, so long as any Note remains outstanding and listed on such exchange, in the event of any significant new factor, material mistake or inaccuracy relating to information included in this Prospectus which is capable of affecting the assessment of any Notes, prepare a supplement to this Prospectus or publish a new prospectus for use in connection with any subsequent issue of Notes to be listed on Euronext Amsterdam.

If the terms of this Programme are modified or amended in a manner which would make this Prospectus inaccurate or misleading, a new prospectus will be prepared.

This Prospectus and any supplement will only be valid for listing Notes on Euronext Amsterdam or any other exchange during the period of 12 months from the date of this Prospectus in an aggregate nominal amount which, when added to the aggregate nominal amount then outstanding of all Notes previously or simultaneously issued under the Programme, does not exceed €10,000,000,000 or its equivalent in other currencies. For the purpose of calculating the aggregate amount of Notes issued under the Programme from time to time:

- (a) the euro equivalent of Notes denominated in another Specified Currency (as specified in the applicable Final Terms in relation to the Notes, described under “Form of the Notes” below) shall be determined, at the discretion of the Issuer, as of the date of agreement to issue such Notes (the “Agreement Date”) or on the preceding day on which commercial banks and foreign exchange markets are open for business in London, in each case on the basis of the spot rate for the sale of the euro against the purchase of such Specified Currency in the London foreign exchange market quoted by any leading bank selected by the Issuer on such date;
- (b) the amount (or, where applicable, the euro equivalent) of Dual Currency Notes, Index Linked Notes and Partly Paid Notes (each as specified in the applicable Final Terms in relation to the Notes,

described under “Form of the Notes”) shall be calculated (in the case of Notes not denominated in euro, in the manner specified above) by reference to the original nominal amount of such Notes (in the case of Partly Paid Notes, regardless of the subscription price paid); and

- (c) the amount (or, where applicable, the euro equivalent) of Zero Coupon Notes (as specified in the applicable Final Terms in relation to the Notes, described under “Form of the Notes”) and other Notes issued at a discount or premium shall be calculated (in the case of Notes not denominated in euro, in the manner specified above) by reference to the net proceeds received by the Issuer for the relevant issue.

## FORM OF THE NOTES

The Notes of each Series will either be in bearer form (“Bearer Notes”), with or without interest coupons (“Coupons”) attached, or in registered form (“Registered Notes”), without Coupons attached. Bearer Notes will be issued outside the United States in reliance on Regulation S under the Securities Act (“Regulation S”) and Registered Notes will be issued both outside the United States in reliance on Regulation S and within the United States in reliance on Rule 144A under the Securities Act or otherwise in private transactions that are exempt from the registration requirements of the Securities Act.

### **Bearer Notes**

Each Tranche of Bearer Notes will (unless otherwise indicated in the applicable Final Terms) be initially represented by a temporary bearer global Note (the “Temporary Bearer Global Note”) (or, if so specified in the applicable Final Terms, a permanent bearer global Note (the “Permanent Bearer Global Note”), without receipts, interest coupons or talons, which will either be delivered on or prior to the original issue date of the tranche to (i) a common depository for Euroclear Bank S.A./N.V. as operator of the Euroclear System (“Euroclear”) and Clearstream Banking, société anonyme (“Clearstream, Luxembourg”) and/or any other agreed clearing system or (ii) be deposited with the Nederlands Centraal Instituut voor Giraal Effectenverkeer B.V. (“Euroclear Netherlands”). Whilst any Bearer Note is represented by a Temporary Bearer Global Note and subject to TEFRA D selling restrictions, payments of principal and interest (if any) due prior to the Exchange Date (as defined below) will be made against presentation of the Temporary Bearer Global Note only to the extent that certification (in a form to be provided) to the effect that the beneficial owners of such Note are not U.S. persons or persons who have purchased for resale to any U.S. person, as required by U.S. Treasury regulations, has been received by the relevant clearing system(s) and the relevant clearing system(s) have given a like certification (based on the certifications they have received) to the Principal Paying Agent. Any reference in this section to the relevant clearing system(s) shall mean the clearance and/or settlement system(s) specified in the applicable Final Terms. On and after the date (the “Exchange Date”) which is not less than 40 days nor more than 90 days after the date on which a Temporary Bearer Global Note is issued, interests in the Temporary Bearer Global Note will be exchangeable (free of charge), upon request as described therein, either for interests in a Permanent Bearer Global Note without receipts, interest coupons or talons or for definitive Bearer Notes (as indicated in the applicable Final Terms), in each case (if the Bearer Notes are subject to TEFRA D selling restrictions) against certification of beneficial ownership as described in the second sentence of this paragraph unless such certification has already been given. The holder of a Temporary Bearer Global Note will not be entitled to collect any payment of interest or principal due on or after the Exchange Date, unless upon due presentation of the Temporary Bearer Global Note for exchange as aforesaid, delivery of any of the definitive Bearer Notes or Coupons is improperly withheld or refused.

Definitive Bearer Notes will be either in the standard euromarket form, in K-form (including *verzamelbewijs*) (with Coupons) and/or in CF-form (with Coupon sheets). Definitive Bearer Notes and global Bearer Notes will be to bearer. Bearer Notes in K-form may, if applicable, have Talons for further Coupons attached but will not be issued with Receipts attached. Bearer Notes in CF-form will have neither Talons nor Receipts attached on issue and will be governed by the rules of the “Algemeen Obligatiekantoor van het Centrum voor Fondsenadministratie B.V.” in Amsterdam.

Payments of principal and interest (if any) on a Permanent Bearer Global Note will be made through the relevant clearing system(s) against presentation or surrender (as the case may be) of the Permanent Bearer Global Note without any requirement for certification. A Permanent Bearer Global Note will be exchangeable (free of charge), in whole or (subject to the Bearer Notes which continue to be represented by the Permanent Bearer Global Note being regarded by the relevant clearing system(s) as fungible with the definitive Bearer Notes issued in partial exchange for such Permanent Bearer Global Note) in part, in accordance with the applicable Final Terms for security printed definitive Bearer Notes with, where applicable, receipts, interest coupons or coupon sheets and talons attached. Such exchange may be made, as specified in the applicable Final Terms, either: (i) upon not less than 30 days’ written notice being given to the Principal Paying Agent by a relevant clearing system (acting on the instructions of any of its participants) as described therein or (ii) upon the occurrence of an Exchange Event.

An “Exchange Event” means (1) the Issuer has been notified that both Euroclear and Clearstream Luxembourg and/or if applicable Euroclear Netherlands has been closed for business for a continuous period of 14 days (other than by reason of holiday, statutory or otherwise) or has announced an intention permanently to cease business or has in fact done so and no alternative clearing system is available or (2) the Issuer has or will become obliged to pay additional amounts as provided for or referred to in Condition 8 which would not be required were the Bearer Notes represented by the Permanent Bearer Global Note in definitive form. The Issuer will promptly give notice to Noteholders in accordance with Condition 14 upon the occurrence of an Exchange Event. In the event of the occurrence of an Exchange Event, a relevant clearing system acting on the instructions of any holder of an interest in the global Bearer Note may give notice to the Principal Paying Agent requesting exchange and in the event of the occurrence of an Exchange Event as described in (2) above, the Issuer may also give notice to the Principal Paying Agent requesting exchange. Any such exchange shall occur no later than 15 days after the date on which the relevant notice is received by the Principal Paying Agent. Global Bearer Notes and definitive Bearer Notes will be issued pursuant to the Agency Agreement (as defined under “Terms and Conditions of the Notes” below). At the date hereof, neither Euroclear nor Clearstream, Luxembourg, as opposed to Euroclear Netherlands, regard Bearer Notes in global form as fungible with Bearer Notes in definitive form.

The following legend will appear on all Bearer Notes which have an original maturity of more than 365 days and on all receipts and interest coupons (including talons) relating to such Notes which are subject to TEFRA D selling restrictions:

“ANY UNITED STATES PERSON WHO HOLDS THIS OBLIGATION WILL BE SUBJECT TO LIMITATIONS UNDER THE UNITED STATES INCOME TAX LAWS, INCLUDING THE LIMITATIONS PROVIDED IN SECTIONS 165(j) AND 1287(a) OF THE INTERNAL REVENUE CODE OF 1986.”

The sections referred to provide that United States holders, with certain exceptions, will not be entitled to deduct any loss on Notes, receipts or interest coupons and will not be entitled to capital gains treatment of any gain on any sale, disposition, redemption or payment of principal in respect of Notes, receipts or interest coupons.

The following legend will appear on all global Bearer Notes held in Euroclear Netherlands:

“Notice: This Note is issued for deposit with Nederlands Centraal Instituut voor Giraal Effectenverkeer B.V. (“Euroclear Netherlands”) at Amsterdam, The Netherlands. Any person being offered this Note for transfer or any other purpose should be aware that theft or fraud is almost certain to be involved.

Notice: The custody of this global certificate by Euroclear Netherlands shall be subject to Euroclear Netherlands’ conditions as in force from time to time. The Issuer hereby declares that it will abide by these conditions.”

### **Registered Notes**

Each Tranche of Registered Notes offered and sold in reliance on Regulation S, which will be sold to non-U.S. persons outside the United States, will initially be represented by a global note in registered form (“Regulation S Global Notes”). Prior to expiry of the distribution compliance period (as defined in Regulation S) applicable to each Tranche of Notes, beneficial interests in a Regulation S Global Note may not be offered or sold to, or for the account or benefit of, a U.S. person save as otherwise provided in Condition 2 and may not be held otherwise than through Euroclear or Clearstream, Luxembourg and such Regulation S Global Note will bear a legend regarding such restrictions on transfer.

The Registered Notes of each Tranche may only be offered and sold in the United States or to U.S. persons in private transactions (i) to “qualified institutional buyers” within the meaning of Rule 144A under the Securities Act (“QIBs”) or (ii) to “accredited investors” (as defined in Rule 501(a)(1), (2), (3) or (7) under the Securities Act) that are institutions (“Institutional Accredited Investors”) and who execute and deliver an IAI Investment Letter (as defined under “Terms and Conditions of the Notes”) in which they agree to purchase the Notes for their own account and not with a view to the distribution thereof. The Registered Notes of each Tranche sold to QIBs will be represented by a global note in registered form (“Rule 144A Global Notes” and, together with Regulation S Global Notes, the “Registered Global Notes”).

Registered Global Notes will either (i) be deposited with a custodian for, and registered in the name of a nominee of, The Depository Trust Company (“DTC”) for its own account or for the accounts of Euroclear and Clearstream, Luxembourg or (ii) be deposited with a common depository for, and registered in the name of a common nominee of, Euroclear and Clearstream, Luxembourg, as specified in the applicable Final Terms. Persons holding beneficial interests in Registered Global Notes will be entitled or required, as the case may be, under the circumstances described below, to receive physical delivery of definitive Notes in fully registered form.

The Registered Notes of each Tranche sold to Institutional Accredited Investors will be in definitive form, registered in the name of the holder thereof (“Definitive IAI Registered Notes”). Unless otherwise set forth in the applicable Final Terms, Definitive IAI Registered Notes will be issued only in minimum denominations of U.S.\$500,000 and integral multiples of U.S.\$1,000 in excess thereof (or the approximate equivalents in the applicable Specified Currency). Definitive IAI Registered Notes will be subject to the restrictions on transfer set forth therein and will bear the restrictive legend described under “Subscription and Sale and Transfer and Selling Restrictions”. Institutional Accredited Investors that hold Definitive IAI Registered Notes may not elect to hold such Notes through DTC, Euroclear or Clearstream, Luxembourg, but transferees acquiring the Notes in transactions exempt from Securities Act registration pursuant to Regulation S or Rule 144A under the Securities Act (if available) may do so upon satisfaction of the requirements applicable to such transfer as described under “Subscription and Sale and Transfer and Selling Restrictions”. The Registered Global Notes and the Definitive IAI Registered Notes will be subject to certain restrictions on transfer set forth therein and will bear a legend regarding such restrictions.

Payments of principal, interest and any other amount in respect of the Registered Global Notes will, in the absence of provision to the contrary, be made to the person shown on the Register (as defined in Condition 6(d)) as the registered holder of the Registered Global Notes. None of the Issuer, any Paying Agent or the Registrar will have any responsibility or liability for any aspect of the records relating to or payments or deliveries made on account of beneficial ownership interests in the Registered Global Notes or for maintaining, supervising or reviewing any records relating to such beneficial ownership interests.

Payments of principal, interest or any other amount in respect of the Registered Notes in definitive form will, in the absence of provision to the contrary, be made to the persons shown on the Register on the relevant Record Date (as defined in Condition 6(d)) immediately preceding the due date for payment in the manner provided in that Condition.

Interests in a Registered Global Note will be exchangeable (free of charge), in whole but not in part, for definitive Registered Notes without receipts, interest coupons or talons attached only upon the occurrence of an Exchange Event. For these purposes, “Exchange Event” means that (1) in the case of Notes registered in the name of a nominee for DTC, either DTC has notified the Issuer that it is unwilling or unable to continue to act as depository for the Notes and no alternative clearing system is available or, DTC has ceased to constitute a clearing agency registered under the Exchange Act, or (2) in the case of Notes registered in the name of a nominee for a common depository for Euroclear and Clearstream, Luxembourg, the Issuer has been notified that both Euroclear and Clearstream, Luxembourg have been closed for business for a continuous period of 14 days (other than by reason of holiday, statutory or otherwise) or have announced an intention permanently to cease business or have in fact done so and, in any such case, no successor clearing system is available, or (3) the Issuer has or will become obliged to pay additional amounts as provided for or referred to in Condition 8 which would not be required were the Registered Notes represented by the Registered Global Note in definitive form. The Issuer will promptly give notice to Noteholders in accordance with Condition 14 if an Exchange Event occurs. In the event of the occurrence of an Exchange Event, DTC and/or Euroclear and/or Clearstream, Luxembourg (acting on the instructions of any holder of an interest in such Registered Global Note) may give notice to the Registrar requesting exchange and, in the event of the occurrence of an Exchange Event as described in (3) above, the Issuer may also give notice to the Registrar requesting exchange. Any such exchange shall occur not later than 15 days after the date on which the relevant notice is received by the Registrar.

### **Transfer of Interests**

Interests in a Registered Global Note may, subject to compliance with all applicable restrictions, be transferred to a person who wishes to hold such interest in another Registered Global Note or in the form of

a Definitive IAI Registered Note and Definitive IAI Registered Notes may, subject to compliance with all applicable restrictions, be transferred to a person who wishes to hold such Notes in the form of an interest in a Registered Global Note. No beneficial owner of an interest in a Registered Global Note will be able to transfer such interest, except in accordance with the applicable procedures of DTC, Euroclear and Clearstream, Luxembourg, in each case to the extent applicable. **Registered Notes are also subject to the restrictions on transfer set forth therein and will bear a legend regarding such restrictions, see “Subscription and Sale and Transfer and Selling Restrictions”.**

## **General**

Pursuant to the Agency Agreement the Principal Paying Agent shall arrange that, where a further Tranche of Notes is issued which is intended to form a single Series with an existing Tranche of Notes, the Notes of such further Tranche shall be assigned an ISIN and a common code by Euroclear and Clearstream, Luxembourg, and where applicable, a CUSIP and CINS number by DTC and/or a Fondscode by the Listing Department of Euronext Amsterdam which are different from the ISIN, common code, CUSIP and CINS and Fondscode assigned to Notes of any other Tranche of the same Series until at least the expiry of the distribution compliance period (as defined under Regulation S) applicable to the Notes of such Tranche.

A Note may be accelerated by the holder thereof in certain circumstances described in Condition 10 of the Terms and Conditions. In such circumstances, where any Note is still represented by a global Note and a holder of such Note so represented and credited to his account with the relevant clearing system(s) (other than Euroclear Netherlands) gives notice that it wishes to accelerate such Note, unless within a period of 15 days from the giving of such notice payment has been made in full of the amount due in accordance with the terms of such global Note, holders of interests in such global Note credited to their accounts with the relevant clearing system(s) (other than Euroclear Netherlands) will become entitled to proceed directly against the Issuer on the basis of statements of account provided by the relevant clearing system(s) (other than Euroclear Netherlands) on and subject to the terms of the relevant global Note. In the case of a global Bearer Note deposited with Euroclear Netherlands, the rights of Noteholders will be exercised in accordance with the provisions of such global Bearer Note and the provisions of the Securities Giro Transfer Act (“*Wet giraal effectenverkeer*”). In addition, holders of interests in a global Note credited to their accounts with DTC may require DTC to deliver definitive Notes in registered form in exchange for their interests in a global Note in accordance with DTC’s standard operating procedures.

For so long as any of the Notes is represented by a global Note held on behalf of Euroclear and/or Clearstream, Luxembourg each person (other than Euroclear or Clearstream, Luxembourg) who is for the time being shown in the records of Euroclear or of Clearstream, Luxembourg as the holder of a particular nominal amount of such Notes (in which regard any certificate or other document issued by Euroclear or Clearstream, Luxembourg as to the nominal amount of such Notes standing to the account of any person shall be conclusive and binding for all purposes save in the case of manifest error) shall be treated by the Issuer and its agents as the holder of such nominal amount of such Notes for all purposes other than with respect to the payment of principal or interest on such nominal amount of such Notes, for which purpose the bearer of the relevant global Bearer Note or the registered holder of the relevant Registered Global Note shall be treated by the Issuer and its agents as the holder of such nominal amount of such Notes in accordance with and subject to the terms of the relevant global Note and the expressions “Noteholder” and “holder of Notes” and related expressions shall be construed accordingly.

So long as DTC or its nominee is the registered owner or holder of a Registered Global Note, DTC or such nominee, as the case may be, will be considered the sole owner or holder of the Notes represented by such Registered Global Note for all purposes under the Agency Agreement and such Notes except to the extent that in accordance with DTC’s published rules and procedures any ownership rights may be exercised by its participants or beneficial owners through participants.

Any reference herein to Euroclear and/or Clearstream, Luxembourg and/or DTC shall, whenever the context so permits, be deemed to include a reference to any additional or alternative clearing system specified in the applicable Final Terms.

## Applicable Final Terms

Set out below is the form of Final Terms which will be completed for each Tranche of Notes issued under the Programme.

[Date]

Koninklijke KPN N.V.

Incorporated in the Netherlands as a public limited liability company  
(*naamloze vennootschap*) with its corporate seat in the Hague

Issue of [Aggregate Nominal Amount of Tranche] [Title of Notes]  
under the €10,000,000,000  
Global Medium Term Note Programme

### PART A – CONTRACTUAL TERMS

Terms used herein shall be deemed to be defined as such for the purposes of the Conditions set forth in the Prospectus dated 20th September, 2005 which constitutes a base prospectus for the purposes of the Prospectus Directive (Directive 2003/71/EC) (the “Prospectus Directive”). This document constitutes the Final Terms of the Notes described herein for the purposes of Article 5.4 of the Prospectus Directive and must be read in conjunction with such Prospectus [as so supplemented]. Full information on the Issuer and the offer of the Notes is only available on the basis of the combination of these Final Terms and the Prospectus. The Prospectus is available for viewing at Koninklijke KPN N.V., Maanplein 55, 2516 CK The Hague, The Netherlands and at [www.kpn.com](http://www.kpn.com) and copies may be obtained from Koninklijke KPN N.V., Maanplein 55, 2516 CK The Hague, The Netherlands.

*The following alternative language applies if the first tranche of an issue which is being increased was issued under a Prospectus with an earlier date.*

Terms used herein shall be deemed to be defined as such for the purposes of the Conditions (the “Conditions”) set forth in the Prospectus dated [original date]. This document constitutes the Final Terms of the Notes described herein for the purposes of Article 5.4 of the Prospectus Directive (Directive 2003/71/EC) (the “Prospectus Directive”) and must be read in conjunction with the Prospectus dated 20th September 2005 which constitutes a base prospectus for the purposes of the Prospectus Directive, save in respect of the Conditions which are extracted from the Prospectus dated [original date] and are attached hereto. Full information on the Issuer and the offer of the Notes is only available on the basis of the combination of these Final Terms and the Prospectuses dated [original date] and 20th September 2005. The Prospectuses are available for viewing at Koninklijke KPN N.V., Maanplein 55, 2516 CK The Hague, The Netherlands and at [www.kpn.com](http://www.kpn.com) and copies may be obtained from Koninklijke KPN N.V., Maanplein 55, 2516 CK The Hague, The Netherlands.

*[Include whichever of the following apply or specify as “Not Applicable” (N/A). Note that the numbering should remain as set out below, even if “Not Applicable” is indicated for individual paragraphs or sub-paragraphs. Italics denote directions for completing the Final Terms.]*

*[When adding any other final terms or information consideration should be given as to whether such terms or information constitute “significant new factors” and consequently trigger the need for a supplement to the Prospectus under Article 16 of the Prospectus Directive.]*

*[If the Notes have a maturity of less than one (1) year from the date of their issue, the minimum denomination may need to be £100,000 or its equivalent in any other currency.]*

1. Issuer: Koninklijke KPN N.V.
2. (i) Series Number: [ ]  
(ii) Tranche Number: [ ]  
*(If fungible with an existing Series, details of that Series, including the date on which the Notes become fungible)*

3. Specified Currency or Currencies: [ ]
4. Aggregate Nominal Amount:  
 (i) Series: [ ]  
 (ii) Tranche: [ ]
5. Issue Price of Tranche: [ ] per cent. of the Aggregate Nominal Amount [plus accrued interest from *[insert date]*] (if applicable)
6. Specified Denominations: [ ] [*Notes (including Notes denominated in sterling) in respect of which the issue proceeds are to be accepted by the Issuer in the United Kingdom or whose issue otherwise constitutes a contravention of section 19 of the FSMA and which have a maturity of less than one year must have a minimum redemption value of £100,000 (or its equivalent in other currencies)*]
7. (i) Issue Date and Interest Commencement Date: [ ]  
 (ii) Interest Commencement Date: [ ]
8. Maturity Date: [*Fixed rate – specify date/Floating rate – Interest Payment Date falling in or nearest to [specify month].*]
9. Interest Basis: [[ ] per cent. Fixed Rate]  
 [[LIBOR/EURIBOR] +/- [ ] per cent. Floating Rate]  
 [Zero Coupon]  
 [Index Linked Interest]  
 [Dual Currency Interest]  
 [*specify others*]  
 (further particulars specified below)
10. Redemption/Payment Basis: [Redemption at par]  
 [Index Linked Redemption]  
 [Dual Currency Redemption]  
 [Partly Paid]  
 [Instalment]  
 [*specify other*]
11. Change of Interest Basis or Redemption/Payment Basis: [ ]  
 (*NB: If the Final Redemption Amount is other than 100% of the nominal value, the Notes will be derivative securities for the purposes of the Prospectus Directive and the requirements of Annex XII to the Prospectus Directive Regulation will apply.*)  
 [*Specify details of any provision for change of Notes into another Interest Basis or Redemption/Payment Basis*]
12. Put/Call Options: [Investor Put]  
 [Issuer Call]  
 [(further particulars specified below)]
13. Status of the Notes: [Senior/Subordinated – give details, including any variations to the Negative Pledge and Events of Default.]

14. Method of distribution: [Syndicated/Non-syndicated]

**Provisions Relating to Interest (if any) Payable**

15. Fixed Rate Note Provisions [Applicable/Not Applicable]  
*(If not applicable, delete the remaining sub-paragraphs of this paragraph)*
- (i) Rate[(s)] of Interest: [ ] per cent. per annum [payable [annually/semi-annually/quarterly] in arrear]  
*(If payable other than annually, consider amending Condition 5)*
  - (ii) Interest Payment Date(s): [ ] in each year up to and including the Maturity Date/[specify other] *(NB: This will need to be amended in the case of long or short coupons)*
  - (iii) Fixed Coupon Amount(s): [ ] per [ ] in nominal amount
  - (iv) Broken Amount(s): *[Insert particulars of any initial or final broken interest amounts which do not correspond with the Fixed Coupon Amount]*
  - (v) Day Count Fraction: [30/360 or Actual/Actual (ISMA) or specify other]
  - (vi) Determination Date[s]: [ ] in each year  
*[Insert regular interest payment dates, ignoring issue date or maturity date in the case of a long or short first or last coupon (NB: This will need to be amended in the case of regular interest payments which are not of equal duration)]  
(NB: Only relevant where Day Count Fraction is Actual/Actual (ISMA))*
  - (vii) Other terms relating to the method of calculating interest for Fixed Rate Notes: [None/Give details]
16. Floating Rate Note Provisions [Applicable/Not Applicable]  
*(If not applicable, delete the remaining sub-paragraphs of this paragraph)*
- (i) Specified Period(s)/Specified Interest Payment Dates: [ ]
  - (ii) Business Day Convention: [Floating Rate Convention/Following Business Day Convention/Modified Following Business Day Convention/Preceding Business Day Convention/[specify other]]
  - (iii) Additional Business Centre(s): [ ]
  - (iv) Manner in which the Rate of Interest and Interest Amount is to be determined: [Screen Rate Determination/ISDA Determination/specify other]
  - (v) Party responsible for calculating the Rate of Interest and Interest Amount (if not the Principal Paying Agent): [ ]

- (vi) Screen Rate Determination: [Yes/No]  
 – Reference Rate: [ ].  
*(Either LIBOR, EURIBOR or other, although additional information is required if other – including fallback provisions in the Agency Agreement)*
- Determination Date(s): [ ]  
*(Second London business day prior to the start of each Interest Period if LIBOR (other than Sterling or euro LIBOR), first day of each Interest Period if Sterling LIBOR and the second day on which the TARGET System is open prior to the start of each Interest Period if EURIBOR or euro LIBOR)*
- Relevant Screen Page: [ ]  
*(In the case of EURIBOR, if not Telerate Page 248 ensure it is a page which shows a composite rate or amend the fallback provisions appropriately)*
- (vii) ISDA Determination: [Yes/No]  
 – Floating Rate Option: [ ]  
 – Designated Maturity: [ ]  
 – Reset Date: [ ]
- (viii) Margin(s): [+/-] [ ] per cent. per annum
- (ix) Minimum Rate of Interest: [ ] per cent. per annum
- (x) Maximum Rate of Interest: [ ] per cent. per annum
- (xi) Day Count Fraction: [Actual/365 or Actual/Actual (ISDA)  
 Actual/365 (Fixed)  
 Actual/365 (Sterling)  
 Actual/360  
 30/360  
 30E/360  
 Other]  
*(See Condition 5 for alternatives)*
- (xii) Fall back provisions, rounding provisions and any other terms relating to the method of calculating interest on Floating Rate Notes, if different from those set out in the Conditions: [ ]
17. Zero Coupon Note Provisions [Applicable/Not Applicable]  
*(If not applicable, delete the remaining sub-paragraphs of this paragraph)*
- (i) Accrual Yield: [ ] per cent. per annum
- (ii) Reference Price: [ ]
- (iii) Any other formula/basis of determining amount payable: [ ]
- (iv) Day Count Fraction in relation to Early Redemption Amounts and late payment: [Conditions 7(e) and (j) apply/specify other]  
*(Consider applicable day count fraction if not U.S. dollar denominated)*
18. Index Linked Interest Note Provisions [Applicable/Not Applicable]  
*(If not applicable, delete the remaining subparagraphs of this paragraph)*

- (i) Index/Formula: [give or annex details]
- (ii) Calculation Agent responsible for calculating interest due: [ ]
- (iii) Provisions for determining Coupon where calculation by reference to Index and/or Formula is impossible or impracticable: [ ] (need to include a description of market disruption or settlement disruption events and adjustment provisions)
- (iv) Specified Period(s)/Specified Interest Payment Dates: [ ]
- (v) Business Day Convention: [Floating Rate Convention/Following Business Day Convention/Modified Following Business Day Convention/Preceding Business Day Convention/specify other]
- (vi) Additional Business Centre(s): [ ]
- (vii) Minimum Rate of Interest: [ ] per cent. per annum
- (viii) Maximum Rate of Interest: [ ] per cent. per annum
- (ix) Day Count Fraction: [ ]
19. Dual Currency Interest Note Provisions [Applicable/Not Applicable]  
(If not applicable, delete the remaining sub-paragraphs of this paragraph)
- (i) Rate of Exchange/method of calculating Rate of Exchange: [give or annex details]
- (ii) Calculation Agent, if any, responsible for calculating the interest payable: [ ]
- (iii) Provisions applicable where calculation by reference to Rate of Exchange impossible or impracticable: [ ] (need to include a description of market disruption or settlement disruption events and adjustment provisions)
- (iv) Person at whose option Specified Currency(ies) is/are payable: [ ]

### Provisions Relating to Redemption

20. Issuer Call: [Applicable/Not Applicable]  
(If not applicable, delete the remaining sub-paragraphs of this paragraph)
- (i) Optional Redemption Date(s): [ ]
- (ii) Optional Redemption Amount(s) of each Note and method, if any, of calculation of such amount(s): [ ] per Note of [ ] Specified Denomination
- (iii) If redeemable in part:
- (a) Minimum Redemption Amount: [ ]
- (b) Higher Redemption Amount: [ ]

- (iv) Notice period: [ ]  
*(N.B. if setting notice periods which are different to those provided in the Conditions, the Issuer is advised to consider the practicalities of distribution of information through intermediaries, for example, clearing systems and custodians, as well as any other notice requirements which may apply, for example, as between the Issuer and the Agent)*
21. Investor Put: [Applicable/Not Applicable]  
*(If not applicable, delete the remaining sub-paragraphs of this paragraph)*
- (i) Optional Redemption Date(s): [ ]
- (ii) Optional Redemption Amount(s) of each Note and method, if any, of calculation of such amount(s): [ ] per Note of [ ] Specified Denomination
- (iii) Notice period: [ ]  
*(N.B. if setting notice periods which are different to those provided in the Conditions, the Issuer is advised to consider the practicalities of distribution of information through intermediaries, for example, clearing systems and custodians, as well as any other notice requirements which may apply, for example, as between the Issuer and the Agent)*
22. Final Redemption Amount of each Note: [[ ] per Note of [ ] Specified Denomination/specify other/see Appendix]  
*(NB: If the Final Redemption Amount is other than 100% of the nominal value, the Notes will be derivative securities for the purposes of the Prospectus Directive and the requirements of Annex XII to the Prospectus Directive Regulation will apply).*
23. Early Redemption Amount(s) of each Note payable on redemption for taxation reasons or on event of default and/or the method of calculating the same (if required or if different from that set out in Condition 7(e)): [ ]

#### **General Provisions Applicable to the Notes**

24. Form of Notes: [Bearer Notes:  
[Temporary Bearer Global Note exchangeable for a Permanent Bearer Global Note which is exchangeable for Definitive Bearer Notes [on 30 days' notice given at any time/only upon an Exchange Event].]  
[Temporary Bearer Global Note exchangeable for Definitive Bearer Notes on and after the Exchange Date.]  
[Permanent Bearer Global Note exchangeable for Definitive Bearer Notes [on 30 days' notice given at any time/only upon an Exchange Event].]]
- [Registered Notes:  
Regulation S Global Note (U.S.\$[ ] nominal amount) registered in the name of a nominee for [DTC/a common depositary for Euroclear and Clearstream, Luxembourg]/Rule 144A Global Note (U.S.\$[ ] nominal

amount) registered in the name of a nominee for [DTC/a common depository for Euroclear and Clearstream, Luxembourg]/Definitive IAI Registered Notes (*specify nominal amounts*).]

25. Additional Financial Centre(s) or other special provisions relating to Payment Dates: [Not Applicable/give details]  
*(Note that this item relates to the date and place of payment and not Interest Period end dates to which items 16(iii) and 18(vi) relate)*
26. Talons for future Coupons or Receipts to be attached to Definitive Notes (and dates on which such Talons mature): [Yes/No. *If yes, give details*]
27. Details relating to Partly Paid Notes: amount of each payment comprising the Issue Price and date on which each payment is to be made and consequences of failure to pay, including any right of the Issuer to forfeit the Notes and interest due on late payment: [Not Applicable/give details. *NB: new forms of Global Note may be required for Partly Paid issues*]
28. Details relating to Instalment Notes:  
(i) Instalment Amount(s): [Not Applicable/give details]  
(ii) Instalment Date(s): [Not Applicable/give details]
29. Redenomination applicable: Redenomination [not] applicable  
*(if Redenomination is applicable, specify the applicable Day Count Fraction and any provisions necessary to deal with floating rate interest calculation (including alternative reference rates))*
30. Other terms or special conditions: [Not Applicable/give details]  
*(When adding any other final terms consideration should be given as to whether such terms constitute “significant new factors” and consequently trigger the need for a supplement to the Prospectus under Article 16 of the Prospectus Directive.)*
31. For the purposes of Condition 14, notices to be published in the Financial Times: (*generally yes, but no for domestic issues*) [Yes/No]
32. Condition 8(a) or 8(b) of the Notes applies: [Condition 8(a) applies and Condition 7(b) does not apply/Condition 8(b) applies and Condition 7(b) applies]
33. Additional tax disclosure [Not Applicable/required in the case of Floating Rate Notes and Index Linked Notes]

## Distribution

34. (i) If syndicated, names [and addresses]\*\* of Managers [and underwriting commitments]\*\*: [Not Applicable/give names [and addresses and underwriting commitments]\*\*]  
*(Include names and addresses of entities agreeing to underwrite the issue on a firm commitment basis and names and addresses of the entities agreeing to place the issue without a firm commitment or on a “best efforts” basis if such entities are not the same as the Managers.)\*\**
- (ii) Date of Syndication Agreement: [ ]
- (iii) Stabilising Manager (if any): [Not Applicable/give name]
35. If non-syndicated, name [and address]\*\* of relevant Dealer: [Name [and address]\*\*]
- [36. Total commission and concession: [ ] per cent. of the Aggregate Nominal Amount]\*\*
37. Whether TEFRA D or TEFRA C rules applicable or TEFRA rules not applicable: [TEFRA D/TEFRA C/TEFRA not applicable]
38. Additional selling restrictions: [Not Applicable/give details]

### [LISTING AND ADMISSION TO TRADING APPLICATION

These Final Terms comprise the final terms required to list and have admitted to trading the issue of Notes described herein pursuant to the €10,000,000,000 Global Medium Term Note Programme of Koninklijke KPN N.V.]

### [STABILISATION

*[If the Market Abuse Directive is mandatory, use the following text:*

In connection with the issue of the Notes, [insert name of stabilising manager] (the “Stabilising Manager”) (or persons acting on behalf of the Stabilising Manager) may over-allot Notes [include if Notes being admitted to a regulated market - (provided that, in the case of any Tranche of Notes to be listed or admitted to trading on Euronext Amsterdam or another regulated market, the aggregate principal amount of Notes allotted does not exceed 105 per cent. of the aggregate principal amount of the relevant Tranche)] or effect transactions with a view to supporting the market price of the Notes at a level higher than that which might otherwise prevail. However, there is no assurance that the Stabilising Manager(s) (or persons acting on behalf of a Stabilising Manager) will undertake stabilisation action. Any stabilisation action may begin on or after the date on which adequate public disclosure of the final terms (in the case of Notes convertible or exchangeable into shares or into other securities equivalent to shares) or terms (in all other cases) of the offer of the relevant Tranche of Notes is made and, if begun, may be ended at any time, but it must end no later than the earlier of 30 days after the issue date of the relevant Tranche of Notes and 60 days after the date of the allotment of the Notes.]

*[If the Market Abuse Directive is not mandatory, use the following text:*

In connection with this issue and distribution of Notes, [insert name of stabilising manager] (the “Stabilising Manager”) (or persons acting for it) may over-allot or effect transactions with a view to supporting the market price of the Notes at a level higher than that which might otherwise prevail. However, there may be no obligation on the Stabilising Manager(s) (or persons acting on behalf of a Stabilising Manager) to do this. Such stabilising, if commenced, may be discontinued at any time and must be brought to an end after a limited period. Such stabilising shall be in compliance with all relevant laws and regulations, including (for so long as applicable) Article 32 and Annex 6 of the Further Regulations on Market Conduct Supervision of the Securities Trade 2002 (Nadere regeling

gedragstoezicht effectenverkeer 2002) as amended. If so required by applicable law or regulation, stabilising will in any event be brought to an end within 30 days after the Closing Date of the Notes.]

## RESPONSIBILITY

The Issuer accepts responsibility for the information contained in these Final Terms. [[ ] has been extracted from [ ]. The Issuer confirms that such information has been accurately reproduced and that, so far as it is aware, and is able to ascertain from information published by [ ], no facts have been omitted which would render the reproduced inaccurate or misleading.]

By: .....  
*Duly authorised*

## PART B – OTHER INFORMATION

### 1. LISTING

- (i) Listing: [Euronext Amsterdam/other (specify)/None]
- (ii) Admission to trading: [Application has been made for the Notes to be admitted to trading on [ ] with effect from [ ].] [Not Applicable]
- (Where documenting a fungible issue need to indicate that original securities are already admitted to trading.)\*\**
- (iii) [Estimate of total expenses related to admission to trading:\* [ ].]\*

### 2. RATINGS

- Ratings: The Notes to be issued have been rated:
- [S & P: [ ]]  
[Moody's: [ ]]  
[[Other]: [ ]]
- [Need to include a brief explanation of the meaning of the ratings if this has previously been published by the rating provider.]\*\**
- (The above disclosure should reflect the rating allocated to Notes of the type being issued under the Programme generally or, where the issue has been specifically rated, that rating.)*

### [3. NOTIFICATION

The Netherlands Authority for the Financial Markets (*Autoriteit Financiële Markten*) [has been requested to provide/has provided – *include first alternative for an issue which is contemporaneous with the establishment or update of the Programme and the second alternative for subsequent issues*] the [*include names of competent authorities of host Member States*] with a certificate of approval attesting that the Prospectus has been drawn up in accordance with the Prospectus Directive.]

**4. [INTERESTS OF NATURAL AND LEGAL PERSONS INVOLVED IN THE ISSUE**

[Save for any fees payable to the Managers/Dealer, so far as the Issuer is aware, no person involved in the issue of the Notes has an interest material to the offer. – *Amend as appropriate if there are other interests*]

**5. REASONS FOR THE OFFER; ESTIMATED NET PROCEEDS AND TOTAL EXPENSES\*\***

[(i) Reasons for the offer: [ ]  
*(See “Use of Proceeds” wording in Prospectus – if reasons for offer different from making profit and/or hedging certain risks will need to include those reasons here).]*

[(ii) Estimated net proceeds: [ ]  
*(If proceeds are intended for more than one use will need to split out and present in order of priority. If proceeds insufficient to fund all proposed uses state amount and sources of other funding.)*

[(iii) Estimated total expenses: [ ] *[Include breakdown of expenses]\*\**  
*(If the Notes are derivative securities to which Annex XII of the Prospectus Directive Regulation applies 5(i) above is required where the reasons for the offer are different from making profit and/or hedging certain risks regardless of the minimum denomination of the Notes and where this is the case disclosure of net proceeds and total expenses at 5(ii) and 5(iii) above are also required.)*

**6. YIELD (Fixed Rate Notes only)**

Indication of yield: [ ]  
  
[Calculated as *[include details of method of calculation in summary form]* on the Issue Date.]\*\*  
  
The yield is calculated at the Issue Date on the basis of the Issue Price. It is not an indication of future yield.

**7. HISTORIC INTEREST RATES (Floating Rate Notes only)\*\***

[Details of historic [LIBOR/EURIBOR/other] rates can be obtained from [Telerate].]

**8. PERFORMANCE OF INDEX/FORMULA, EXPLANATION OF EFFECT ON VALUE OF INVESTMENT AND ASSOCIATED RISKS AND OTHER INFORMATION CONCERNING THE UNDERLYING (Index-Linked Notes only)\*\***

*[Need to include details of where past and future performance and volatility of the index/formula can be obtained.]*

*[Need to include a clear and comprehensive explanation of how the value of the investment is affected by the underlying and the circumstances when the risks are most evident.]\*\**

*[Where the underlying is an index need to include the name of the index and a description if composed by the Issuer and if the index is not composed by the Issuer need to include details of where the information about the index can be obtained. Where the underlying is not an index need to include equivalent information.]*

**9. PERFORMANCE OF RATE[S] OF EXCHANGE AND EXPLANATION OF EFFECT ON VALUE OF INVESTMENT (Dual Currency Notes only)\*\***

*[Need to include details of where past and future performance and volatility of the relevant rate[s] can be obtained.]*

*[Need to include a clear and comprehensive explanation of how the value of the investment is affected by the underlying and the circumstances when the risks are most evident.]\*\**

**10. OPERATIONAL INFORMATION**

- (i) ISIN Code: [ ]
- (ii) Common Code: [ ]
- (iii) Fondscore: [ ]
- (iv) Any clearing system(s) other than Euroclear Bank S.A./N.V. and Clearstream Banking Societe Anonyme and the relevant identification number(s): [Not Applicable/give name(s) and number(s)]
- (v) Delivery: Delivery [against/free of] payment
- (vi) Names and addresses of additional Paying Agent(s) (if any): [ ]

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Notes

\* Delete if the minimum denomination is less than EUR 50,000.

\*\* Delete if the minimum denomination is EUR 50,000.

## TERMS AND CONDITIONS OF THE NOTES

*The following are the Terms and Conditions of Notes to be issued by the Issuer which will be incorporated by reference into each global Note and which will be endorsed on (or, if permitted by the rules of the relevant stock exchange and agreed between the Issuer and the relevant Dealer, incorporated by reference into) each definitive Note in the standard euromarket form and K-form and will be applicable to each definitive Note in CF-form. The applicable Final Terms in relation to any Tranche of Notes may specify other terms and conditions which shall to the extent so specified or to the extent inconsistent with the following Terms and Conditions, replace or modify the following Terms and Conditions for the purpose of such Tranche of Notes. The applicable Final Terms will be endorsed on, incorporated by reference into, or attached to, each global Note and definitive Note in the standard euromarket form and K-form and will be applicable to each definitive Note in CF-form. Reference should be made to “Form of the Notes” above for a description of the content of Final Terms which includes the definition of certain terms used in the following Terms and Conditions.*

This Note is one of a series of Notes issued by Koninklijke KPN N.V. (the “Issuer”, which expression shall include any Substituted Debtor (as defined in Condition 17)) pursuant to the Agency Agreement (as defined below). References herein to the “Notes” shall be references to the Notes of this Series (as defined below) and shall mean (i) in relation to any Notes represented by a global Note, units of the lowest Specified Denomination in the Specified Currency, (ii) definitive Notes in bearer form (“Bearer Notes”) issued in exchange (or part exchange) for a global Note in bearer form, (iii) any definitive Notes in registered form (“Registered Notes”) (whether or not issued in exchange for a global Note in registered form) and (iv) any global Note. The holders of the Notes, the Receipts (as defined below) and the Coupons (as defined below) are deemed to have notice of, are entitled to the benefit of and are subject to the provisions of an Amended and Restated Agency Agreement dated 3rd May, 2002, as amended and supplemented by the First Supplemental Agency Agreement (the “First Supplemental Agency Agreement”) dated 8th May, 2003, the Second Supplemental Agency Agreement (the “Second Supplemental Agency Agreement”) dated 28th April, 2004 and the Third Supplemental Agency Agreement dated 20th September, 2005 (together with the Amended and Restated Agency Agreement, the First Supplemental Agency Agreement and the Second Supplemental Agency Agreement, the “Agency Agreement”), as further amended and/or supplemented and/or restated from time to time and made between the Issuer, Dexia Banque Internationale à Luxembourg as issuing and principal paying agent and agent bank in relation to Notes issued prior to 26th January, 2001 and Citibank, N.A. as issuing and principal paying agent and agent bank in relation to Notes issued on or after 26th January, 2001 (together the “Principal Paying Agent”, which expression shall include any successor principal paying agent) and the other paying agents named therein (together with the Principal Paying Agent, the “Paying Agents”, which expression shall include any additional or successor paying agents), Citibank, N.A. as exchange agent (the “Exchange Agent”, which expression shall include any successor exchange agent) and as registrar (the “Registrar”, which expression shall include any successor registrar) and as transfer agent and the other transfer agents named therein (together with the Registrar, the “Transfer Agents” (such Agents, being together referred to as “Agents”), which expression shall include any additional or successor transfer agents).

Interest bearing definitive Bearer Notes in the standard euromarket form (unless otherwise indicated in the applicable Final Terms) have interest coupons (“Coupons”) and, if indicated in the applicable Final Terms, talons for further Coupons (“Talons”) attached on issue. Any reference herein to Coupons or coupons shall, unless the context otherwise requires, be deemed to include a reference to Talons or talons. Definitive Bearer Notes in the standard euromarket form repayable in instalments have receipts (“Receipts”) for the payment of the instalments of principal (other than the final instalment) attached on issue. Registered Notes and global Notes do not have Coupons, Talons or Receipts attached on issue. Any reference herein to “Noteholders” shall mean (in the case of Bearer Notes) the holders of the Notes, and (in the case of Registered Notes) the persons in whose names the Notes are registered, and shall, in relation to any Notes represented by a global Note, be construed as provided below. Any reference herein to “Receiptholders” shall mean the holders of the Receipts and any reference herein to “Couponholders” shall mean the holders of the Coupons, and shall, unless the context otherwise requires, include the holders of the Talons. Any holders mentioned above include those having a credit balance in the collective depots held by a participant of Nederlands Centraal Instituut voor Giraal Effectenverkeer B.V. (“Euroclear Netherlands”).

Interest bearing definitive Notes in K-form will have Coupons and, if indicated in the applicable Final Terms, Talons attached but will not be issued with Receipts attached. Interest bearing definitive Notes in CF-form will have Coupon sheets attached but will not be issued with Talons or Receipts attached. References in these Terms and Conditions to “Coupons” will include references to such Coupon sheets.

The Final Terms for this Note is endorsed hereon or attached hereto or applicable hereto or incorporated by reference herein and supplements these Terms and Conditions and may specify other terms and conditions which shall, to the extent so specified or to the extent inconsistent with these Terms and Conditions, replace or modify these Terms and Conditions for the purposes of this Note. References herein to the “applicable Final Terms” are to the Final Terms for this Note.

As used herein, “Tranche” means Notes which are identical in all respects (including as to listing) and “Series” means a Tranche of Notes together with any further Tranche or Tranches of Notes which are (i) expressed to be consolidated and form a single series and (ii) identical in all respects (including as to listing) from the date on which such consolidation is expressed to take effect except for their respective Issue Dates, Interest Commencement Dates and/or Issue Prices.

Copies of the applicable Final Terms are available free of charge at the registered office of the Issuer and at the specified offices of the Paying Agents in Luxembourg and in an electronic form on the website of the Issuer ([www.kpn.com](http://www.kpn.com)). The Noteholders, the Receiptholders and the Couponholders are deemed to have notice of, are entitled to the benefit of and are subject to all the provisions of the applicable Final Terms which are binding on them.

Words and expressions defined in the Agency Agreement or used in the applicable Final Terms shall have the same meanings where used in these Terms and Conditions unless the context otherwise requires or unless otherwise stated, and provided that, in the event of inconsistency between the Agency Agreement and the applicable Final Terms, the applicable Final Terms will prevail.

## **1. Form, Denomination and Title**

The Notes are in bearer form or in registered form as specified in the applicable Final Terms and, in the case of definitive Notes, serially numbered, in the Specified Currency, the Specified Denomination(s) and the Specified Form(s).

This Note is a Senior Note or a Subordinated Note as indicated in the applicable Final Terms. This Note may be a Fixed Rate Note, a Floating Rate Note, a Zero Coupon Note, an Index Linked Interest Note, an Index Linked Redemption Amount Note, a Dual Currency Interest Note, an Instalment Note, a Partly Paid Note, a Dual Currency Redemption Note or a combination of any of the foregoing, depending on the Interest Basis and Redemption/Payment Basis indicated in the applicable Final Terms.

Bearer Notes in definitive form are issued with Coupons attached, unless they are Zero Coupon Notes in which case references to Coupons and Couponholders in these Terms and Conditions are not applicable.

Subject as set out below, title to the Bearer Notes, Receipts and Coupons will pass by delivery and title to Registered Notes will pass upon registration of transfers in accordance with the provisions of the Agency Agreement. For Notes held by Euroclear Netherlands deliveries will be made in accordance with the Securities Giro Transfer Act (“Wet giraal effectenverkeer”). Except as ordered by a court of competent jurisdiction or as required by law or applicable regulations, the Issuer and the Agents may deem and treat the bearer of any Bearer Note, Receipt or Coupon and the registered holder of any Registered Note as the absolute owner thereof (whether or not overdue and notwithstanding any notice of ownership or writing thereon or notice of any previous loss or theft thereof) for all purposes but, in the case of any global Note, without prejudice to the provisions set out in the next succeeding paragraph.

For so long as any of the Notes is represented by a global Note held on behalf of Euroclear Bank S.A./N.V. as operator of the Euroclear System (“Euroclear”) and/or Clearstream Banking, société anonyme (“Clearstream, Luxembourg”), each person (other than Euroclear or Clearstream, Luxembourg) who is for the time being shown in the records of Euroclear or of Clearstream, Luxembourg as the holder of a particular nominal amount of such Notes (in which regard any certificate or other document issued by Euroclear or Clearstream, Luxembourg as to the nominal amount of Notes standing to the account of any person shall be

conclusive and binding for all purposes save in the case of manifest error) shall be treated by the Issuer and any Agent as the holder of such nominal amount of such Notes for all purposes other than with respect to the payment of principal or interest on the Notes, for which purpose the bearer of the relevant global Bearer Note or the registered holder of the relevant Registered Global Note shall be treated by the Issuer and any Agent as the holder of such Notes in accordance with and subject to the terms of the relevant global Note (and the expressions “Noteholder” and “holder of Notes” and related expressions shall be construed accordingly). Notes which are represented by a global Note held by a common depository for Euroclear or Clearstream, Luxembourg will be transferable only in accordance with the rules and procedures for the time being of Euroclear or of Clearstream, Luxembourg, as the case may be.

For so long as the Depository Trust Company (“DTC”) or its nominee is the registered owner or holder of a Registered Global Note (as defined in Condition 2(h)), DTC or such nominee, as the case may be, will be considered the sole owner or holder of the Notes represented by such Registered Global Note for all purposes under the Agency Agreement and the Notes except to the extent that in accordance with DTC’s published rules and procedures any ownership rights may be exercised by its participants or beneficial owners through participants.

References to Euroclear and/or Clearstream, Luxembourg and/or DTC shall, whenever the context so permits, be deemed to include a reference to any additional or alternative clearing system specified in the applicable Final Terms but shall not include Euroclear Netherlands.

## **2. Transfers of Registered Notes**

### *(a) Transfers of interests in Registered Global Notes*

Transfers of beneficial interests in Registered Global Notes will be effected by DTC, Euroclear or Clearstream, Luxembourg, as the case may be, and, in turn, by other participants and, if appropriate, indirect participants in such clearing systems acting on behalf of beneficial transferors and transferees of such interests. A beneficial interest in a Registered Global Note will, subject to compliance with all applicable legal and regulatory restrictions, be transferable for Notes in definitive form or for a beneficial interest in another Registered Global Note only in the authorised denominations set out in the applicable Final Terms and only in accordance with the rules and operating procedures for the time being of DTC, Euroclear or Clearstream, Luxembourg, as the case may be and in accordance with the terms and conditions specified in the Agency Agreement. Transfers of a Registered Global Note registered in the name of a nominee for DTC shall be limited to transfers of such Registered Global Note, in whole but not in part, to another nominee of DTC or to a successor of DTC or such successor’s nominee.

### *(b) Transfers of Registered Notes in definitive form*

Subject as provided in paragraphs (e), (f) and (g) below, upon the terms and subject to the conditions set forth in the Agency Agreement, a Registered Note in definitive form may be transferred in whole or in part (in the authorised denominations set out in the applicable Final Terms). In order to effect any such transfer (i) the holder or holders must (a) surrender the Registered Note for registration of the transfer of the Registered Note (or the relevant part of the Registered Note) at the specified office of any Transfer Agent with the form of transfer thereon duly executed by the holder or holders thereof or his or their attorney or attorneys duly authorised in writing and (b) complete and deposit such other certifications as may be required by the relevant Transfer Agent and (ii) the relevant Transfer Agent must, after due and careful enquiry, be satisfied with the documents of title and the identity of the person making the request and that the transfer is in compliance with the transfer restrictions set forth in such Registered Note. Any such transfer will be subject to such regulations as the Issuer and the Registrar may from time to time prescribe (the initial such regulations being set out in Schedule 9 to the Agency Agreement). Subject as provided above, the relevant Transfer Agent will, within three business days (being for this purpose a day on which banks are open for business in the city where the specified office of the relevant Transfer Agent is located) of the request (or such longer period as may be required to comply with any applicable fiscal or other laws or regulations), authenticate and deliver, or procure the authentication and delivery of, at its specified office to the transferee or (at the risk of the transferee) send by uninsured mail, to such address as the transferee may request, a new Registered Note in definitive form of a like aggregate nominal amount to the Registered Note (or the relevant

part of the Registered Note) transferred. In the case of the transfer of part only of a Registered Note in definitive form, a new Registered Note in definitive form in respect of the balance of the Registered Note not transferred will be so authenticated and delivered or (at the risk of the transferor) sent to the transferor.

*(c) Registration of transfer upon partial redemption*

In the event of a partial redemption of Notes under Condition 7, the Issuer shall not be required to register the transfer of any Registered Note, or part of a Registered Note, called for partial redemption.

*(d) Costs of registration*

Noteholders will not be required to bear the costs and expenses of effecting any registration of transfer as provided above, except for any costs or expenses of delivery other than by regular uninsured mail and except that the Issuer may require the payment of a sum sufficient to cover any stamp duty, tax or other governmental charge that may be imposed in relation to the registration.

*(e) Transfers of interests in Regulation S Global Notes*

Prior to expiry of the applicable Distribution Compliance Period, transfers by the holder of, or of a beneficial interest in, a Regulation S Global Note to a transferee in the United States or who is a U.S. person will only be made:

- (i) upon receipt by the Registrar of a written certification substantially in the form set out in the Agency Agreement, amended as appropriate (a “Transfer Certificate”), copies of which are available from the specified office of any Transfer Agent, from the transferor of the Note or beneficial interest therein to the effect that such transfer is being made:
  - (A) to a person whom the transferor reasonably believes is a QIB in a transaction meeting the requirements of Rule 144A; or
  - (B) to a person who is an Institutional Accredited Investor, together with, in the case of (B), a duly executed investment letter from the relevant transferee substantially in the form set out in the Agency Agreement (an “IAI Investment Letter”); or
- (ii) otherwise pursuant to the Securities Act or an exemption therefrom, subject to receipt by the Issuer of such satisfactory evidence as the Issuer may reasonably require, which may include an opinion of U.S. counsel, that such transfer is in compliance with any applicable securities laws of any State of the United States,

and, in each case, in accordance with any applicable securities laws of any State of the United States or any other jurisdiction.

In the case of (A) above, such transferee may take delivery through a Legended Note in global or definitive form and, in the case of (B) above, such transferee may take delivery only through a Legended Note in definitive form. After expiry of the applicable Distribution Compliance Period such certification requirements will no longer apply to such transfers.

*(f) Transfers of interests in Legended Notes*

Transfers of Legended Notes or beneficial interests therein may be made:

- (i) to a transferee who takes delivery of such interest through a Regulation S Global Note, upon receipt by the Registrar of a duly completed Transfer Certificate from the transferor to the effect that such transfer is being made in accordance with Regulation S and that, in the case of a Regulation S Global Note registered in the name of a nominee for DTC, if such transfer is being made prior to expiry of the applicable Distribution Compliance Period, the interests in the Notes being transferred will be held immediately thereafter through Euroclear and/or Clearstream, Luxembourg; or
- (ii) to a transferee who takes delivery of such interest through a Legended Note:

- (A) where the transferee is a person whom the transferor reasonably believes is a QIB in a transaction meeting the requirements of Rule 144A, without certification; or
- (B) where the transferee is an Institutional Accredited Investor, subject to delivery to the Registrar of a Transfer Certificate from the transferor to the effect that such transfer is being made to an Institutional Accredited Investor, together with a duly executed IAI Investment Letter from the relevant transferee; or
- (iii) otherwise pursuant to the Securities Act or an exemption therefrom, subject to receipt by the Issuer of such satisfactory evidence as the Issuer may reasonably require, which may include an opinion of U.S. counsel, that such transfer is in compliance with any applicable securities laws of any State of the United States,

and, in each case, in accordance with any applicable securities laws of any State of the United States or any other jurisdiction.

Notes transferred by Institutional Accredited Investors to QIBs pursuant to Rule 144A or outside the United States pursuant to Regulation S will be eligible to be held by such QIBs or non-U.S. investors through DTC, Euroclear or Clearstream, Luxembourg, as appropriate, and the Registrar will arrange for any Notes which are the subject of such a transfer to be represented by the appropriate Registered Global Note, where applicable.

Upon the transfer, exchange or replacement of Legended Notes, or upon specific request for removal of the Legend, the Registrar shall deliver only Legended Notes or refuse to remove the Legend, as the case may be, unless there is delivered to the Issuer such satisfactory evidence as may reasonably be required by the Issuer, which may include an opinion of U.S. counsel, that neither the Legend nor the restrictions on transfer set forth therein are required to ensure compliance with the provisions of the Securities Act.

*(g) Exchanges and transfers of Registered Notes generally*

Holders of Registered Notes in definitive form, other than Institutional Accredited Investors, may exchange such Notes for interests in a Registered Global Note of the same type at any time.

*(h) Definitions*

In this Condition, the following expressions shall have the following meanings:

“Distribution Compliance Period” means the period that ends 40 days after the completion of the distribution of each Tranche of Notes, as certified by the relevant Dealer (in the case of a non-syndicated issue) or the relevant Lead Manager (in the case of a syndicated issue);

“Institutional Accredited Investor” means “accredited investors” (as defined in Rule 501(a)(1), (2), (3) or (7) under the Securities Act that are institutions;

“Legended Notes” means Registered Notes in definitive form that are issued to Institutional Accredited Investors and Registered Notes (whether in definitive form or represented by a Registered Global Note) issued to QIBs which bear certain legends regarding U.S. restrictions on transfer;

“QIB” means a “qualified institutional buyer” within the meaning of Rule 144A;

“Registered Global Note” means a Regulation S Global Note or a Rule 144A Global Note;

“Regulation S” means Regulation S under the Securities Act;

“Regulation S Global Note” means a Registered Global Note representing Notes sold outside the United States in reliance on Regulation S;

“Rule 144A” means Rule 144A under the Securities Act;

“Rule 144A Global Note” means a Registered Global Note representing Notes sold in the United States to QIBs in reliance on Rule 144A or otherwise in private transactions exempt from the registration requirements of the Securities Act; and

“Securities Act” means the United States Securities Act of 1933, as amended.

### **3. Status of the Notes and Negative Pledge**

#### *(a) Status of the Senior Notes*

The Senior Notes and the relative Receipts and Coupons constitute direct, unsecured and unsubordinated obligations of the Issuer and rank pari passu without any preference among themselves and (with the exception of obligations in respect of national and local taxes and certain other statutory exceptions) equally with all other unsecured and unsubordinated obligations of the Issuer.

#### *(b) Negative Pledge relating to the Senior Notes*

So long as the Senior Notes or any relative Receipts or Coupons remain outstanding, the Issuer will not secure by lien, pledge or other charge upon the whole or part of its assets or revenues any present or future Public Debt (as defined below) of the Issuer without at the same time securing the Senior Notes equally and rateably with such Public Debt or providing such other security as the Senior Noteholders may approve by an Extraordinary Resolution (as defined in the Agency Agreement). “Public Debt” means any loan, debt, guarantee or other obligation which is represented by bonds or notes or other securities which have an initial life exceeding two years and which are capable of being listed on any stock exchange or over-the-counter or other similar securities market.

#### *(c) Status and Subordination of the Subordinated Notes*

The status and subordination of the Subordinated Notes is as set out in the applicable Final Terms.

### **4. Redenomination**

#### *(a) Redenomination*

Where redenomination is specified in the applicable Final Terms as being applicable, the Issuer may, without the consent of the Noteholders, the Receiptholders and the Couponholders, on giving prior notice to the Principal Paying Agent, Euroclear and Clearstream, Luxembourg and, if applicable, Euroclear Netherlands and at least 30 days’ prior notice to the Noteholders in accordance with Condition 14, elect that, with effect from the Redenomination Date specified in the notice, the Notes shall be redenominated in euro.

The election will have effect as follows:

- (i) the Notes and the Receipts shall be deemed to be redenominated into euro in the denomination of euro 0.01 with a principal amount for each Note and Receipt equal to the principal amount of that Note or Receipt in the Specified Currency, converted into euro at the Established Rate, provided that, if the Issuer determines, with the agreement of the Principal Paying Agent, that the then market practice in respect of the redenomination into euro of internationally offered securities is different from the provisions specified above, such provisions shall be deemed to be amended so as to comply with such market practice and the Issuer shall promptly notify the Noteholders, the stock exchange (if any) on which the Notes may be listed and the Paying Agents of such deemed amendments;
- (ii) save to the extent that an Exchange Notice has been given in accordance with paragraph (iv) below, the amount of interest due in respect of the Notes will be calculated by reference to the aggregate principal amount of Notes presented (or, as the case may be, in respect of which Coupons are presented) for payment by the relevant holder and the amount of such payment shall be rounded down to the nearest euro 0.01;
- (iii) if definitive Notes are required to be issued after the Redenomination Date, they shall be issued at the expense of the Issuer in the denominations of euro 1,000, euro 10,000, euro 100,000 and (but only to

the extent of any remaining amounts less than euro 1,000 or such smaller denominations as the Principal Paying Agent may approve) euro 0.01 and such other denominations as the Principal Paying Agent shall determine and notify to the Noteholders;

- (iv) if issued prior to the Redenomination Date, all unmatured Coupons denominated in the Specified Currency (whether or not attached to the Notes) will become void with effect from the date on which the Issuer gives notice (the “Exchange Notice”) that replacement euro-denominated Notes, Receipts and Coupons are available for exchange (provided that such securities are so available) and no payments will be made in respect of them. The payment obligations contained in any Notes and Receipts so issued will also become void on that date although those Notes and Receipts will continue to constitute valid exchange obligations of the Issuer. New euro-denominated Notes, Receipts and Coupons will be issued in exchange for Notes, Receipts and Coupons denominated in the Specified Currency in such manner as the Principal Paying Agent may specify and as shall be notified to the Noteholders in the Exchange Notice. No Exchange Notice may be given less than 15 days prior to any date for payment of principal or interest on the Notes;
- (v) after the Redenomination Date, all payments in respect of the Notes, the Receipts and the Coupons, other than payments of interest in respect of periods commencing before the Redenomination Date, will be made solely in euro as though references in the Notes to the Specified Currency were to euro. Payments will be made in euro by credit or transfer to a euro account (or any other account to which euro may be credited or transferred) specified by the payee or, at the option of the payee, by a euro cheque;
- (vi) if the Notes are Fixed Rate Notes and interest for any period ending on or after the Redenomination Date is required to be calculated for a period ending other than on an Interest Payment Date, it will be calculated by applying the Rate of Interest to each Specified Denomination, multiplying such sum by the applicable Day Count Fraction, and rounding the resultant figure to the nearest sub-unit of the relevant Specified Currency, half of any such sub-unit being rounded upwards or otherwise in accordance with applicable market convention;
- (vii) if the Notes are Floating Rate Notes, the applicable Final Terms will specify any relevant changes to the provisions relating to interest; and
- (viii) such other changes shall be made to these Terms and Conditions as the Issuer may decide, after consultation with the Principal Paying Agent, and as may be specified in the notice, to conform them to conventions then applicable to instruments denominated in euro.

*(b) Definitions*

In these Terms and Conditions, the following expressions have the following meanings:

“Established Rate” means the rate for conversion of the Specified Currency (including compliance with rules relating to roundings in accordance with applicable European Community regulations) into euro established by the Council of the European Union pursuant to Article 123 of the Treaty;

“euro” means the currency of the member states of the European Union participating in the economic and monetary union pursuant to the Treaty;

“Redenomination Date” means (in the case of interest bearing Notes) a date for payment of interest under the Notes or (in the case of Zero Coupon Notes) any date, in each case specified by the Issuer in the notice given to the Noteholders pursuant to paragraph (a) above which falls on or after the date on which the country of the specified currency first participates in the third stage of European economic and monetary union; and

“Treaty” means the Treaty establishing the European Community, as amended.

## 5. Interest

### (a) Interest on Fixed Rate Notes

Each Fixed Rate Note bears interest on its outstanding nominal amount (or, if it is a Partly Paid Note, the amount paid up) from and including the Interest Commencement Date at the rate(s) per annum equal to the Rate(s) of Interest. Interest will be payable in arrear on the Interest Payment Date(s) in each year and on the Maturity Date if that does not fall on an Interest Payment Date.

Except as provided in the applicable Final Terms, the amount of interest payable on each Interest Payment Date in respect of the Fixed Interest Period ending on (but excluding) such date will amount to the Fixed Coupon Amount. Payments of interest on any Interest Payment Date will, if so specified in the applicable Final Terms, amount to the Broken Amount so specified.

If interest is required to be calculated for a period other than a Fixed Interest Period, such interest shall be calculated by applying the Rate of Interest to each Specified Denomination, multiplying such sum by the applicable Day Count Fraction, and rounding the resultant figure to the nearest sub-unit of the relevant Specified Currency, half of any such sub-unit being rounded upwards or otherwise in accordance with applicable market convention. As used in these Terms and Conditions, "Fixed Interest Period" means the Period from (and including) an Interest Payment Date (or the Interest Commencement Date) to (but excluding) the next (or first) Interest Payment Date.

"Day Count Fraction" means, in respect of the calculation of an amount of interest in accordance with this Condition 5(a):

- (i) if "Actual/Actual (ISMA)" is specified in the applicable Final Terms:
  - (A) in the case of Notes where the number of days in the relevant period from (and including) the most recent Interest Payment Date (or, if none, the Interest Commencement Date) to (but excluding) the relevant payment date (the "Accrual Period") is equal to or shorter than the Determination Period during which the Accrual Period ends, the number of days in such Accrual Period divided by the product of (1) the number of days in such Determination Period and (2) the number of Determination Dates (as specified in the applicable Final Terms) that would occur in one calendar year; or
  - (B) in the case of Notes where the Accrual Period is longer than the Determination Period during which the Accrual Period ends, the sum of:
    - (1) the number of days in such Accrual Period falling in the Determination Period in which the Accrual Period begins divided by the product of (x) the number of days in such Determination Period and (y) the number of Determination Dates (as specified in the applicable Final Terms) that would occur in one calendar year; and
    - (2) the number of days in such Accrual Period falling in the next Determination Period divided by the product of (x) the number of days in such Determination Period and (y) the number of Determination Dates that would occur in one calendar year;
- (ii) if "30/360" is specified in the applicable Final Terms, the number of days in the period from and including the most recent Interest Payment Date (or, if none, the Interest Commencement Date) to but excluding the relevant payment date (such number of days being calculated on the basis of 12 30-day months) divided by 360.

In these Terms and Conditions:

“Determination Period” means the period from (and including) a Determination Date to (but excluding) the next Determination Date (including, where either the Interest Commencement Date or the final Interest Payment Date is not a Determination Date, the period commencing on the first Determination Date prior to, and ending on the first Determination Date falling after, such date); and

“sub-unit” means, with respect to any currency other than euro, the lowest amount of such currency that is available as legal tender in the country of such currency and, with respect to euro, means one cent.

*(b) Interest on Floating Rate Notes and Index Linked Interest Notes*

**(i) Interest Payment Dates**

Each Floating Rate Note and Index Linked Interest Note bears interest on its outstanding nominal amount (or, if it is a Partly Paid Note, the amount paid up) from (and including) the Interest Commencement Date at the rate equal to the Rate of Interest payable in arrear on either:

- (A) the Specified Interest Payment Date(s) (each an “Interest Payment Date”) in each year specified in the applicable Final Terms; or
- (B) if no Specified Interest Payment Date(s) is/are specified in the applicable Final Terms, each date (each an “Interest Payment Date”) which falls the number of months or other period specified as the Specified Period in the applicable Final Terms after the preceding Interest Payment Date or, in the case of the first Interest Payment Date, after the Interest Commencement Date.

Such interest will be payable in respect of each Interest Period (which expression shall, in these Terms and Conditions, mean the period from (and including) an Interest Payment Date (or the Interest Commencement Date) to (but excluding) the next (or first) Interest Payment Date).

If a Business Day Convention is specified in the applicable Final Terms and (x) if there is no numerically corresponding day on the calendar month in which an Interest Payment Date should occur or (y) if any Interest Payment Date would otherwise fall on a day which is not a Business Day, then, if the Business Day Convention specified is:

- (1) in any case where Specified Periods are specified in accordance with Condition 5(b)(i)(B) above, the Floating Rate Convention, such Interest Payment Date (i) in the case of (x) above, shall be the last day that is a Business Day in the relevant month and the provisions of (B) below shall apply mutatis mutandis or (ii) in the case of (y) above, shall be postponed to the next day which is a Business Day unless it would thereby fall into the next calendar month, in which event (A) such Interest Payment Date shall be brought forward to the immediately preceding Business Day and (B) each subsequent Interest Payment Date shall be the last Business Day in the month which falls the Specified Period after the preceding applicable Interest Payment Date occurred; or
- (2) the Following Business Day Convention, such Interest Payment Date shall be postponed to the next day which is a Business Day; or
- (3) the Modified Following Business Day Convention, such Interest Payment Date shall be postponed to the next day which is a Business Day unless it would thereby fall into the next calendar month, in which event such Interest Payment Date shall be brought forward to the immediately preceding Business Day; or
- (4) the Preceding Business Day Convention, such Interest Payment Date shall be brought forward to the immediately preceding Business Day.

In these Terms and Conditions, “Business Day” means a day which is both:

- (A) a day on which commercial banks and foreign exchange markets settle payments and are open for general business (including dealing in foreign exchange and foreign currency deposits) in London and in any Additional Business Centre specified in the applicable Final Terms; and

(B) either (1) in relation to any sum payable in a Specified Currency other than euro, a day on which commercial banks and foreign exchange markets settle payments and are open for general business (including dealing in foreign exchange and foreign currency deposits) in the principal financial centre of the country of the relevant Specified Currency (if other than London or any Additional Business Centre) or (2) in relation to any sum payable in euro, a day on which Trans-European Automated Real-Time Gross Settlement Express Transfer (TARGET) System (the “TARGET System”) is open.

(ii) Rate of Interest

The Rate of Interest payable from time to time in respect of the Floating Rate Notes and Index Linked Interest Notes will be determined in the manner specified in the applicable Final Terms.

(A) ISDA Determination for Floating Rate Notes

Where ISDA Determination is specified in the applicable Final Terms as the manner in which the Rate of Interest is to be determined, the Rate of Interest for each Interest Period will be the relevant ISDA Rate plus or minus (as indicated in the applicable Final Terms) the Margin (if any). For the purposes of this sub-paragraph (A), “ISDA Rate” for an Interest Period means a rate equal to the Floating Rate that would be determined by the Principal Paying Agent under an interest rate swap transaction if the Principal Paying Agent were acting as Calculation Agent for that swap transaction under the terms of an agreement incorporating the 2000 ISDA Definitions as published by the International Swaps and Derivatives Association, Inc. and as amended and updated as at the Issue Date of the first Tranche of the Notes (the “ISDA Definitions”) and under which:

- (1) the Floating Rate Option is as specified in the applicable Final Terms;
- (2) the Designated Maturity is the period specified in the applicable Final Terms; and
- (3) the relevant Reset Date is either (i) if the applicable Floating Rate Option is based on the London inter-bank offered rate (“LIBOR”) or on the Euro-zone inter-bank offered rate (“EURIBOR”) for a currency, the first day of that Interest Period or (ii) in any other case, as specified in the applicable Final Terms.

For the purposes of this sub-paragraph (A), “Floating Rate”, “Calculation Agent”, “Floating Rate Option”, “Designated Maturity” and “Reset Date” have the meanings given to those terms in the ISDA Definitions.

(B) Screen Rate Determination for Floating Rate Notes

Where Screen Rate Determination is specified in the applicable Final Terms as the manner in which the Rate of Interest is to be determined, the Rate of Interest for each Interest Period will, subject as provided below, be either:

- (1) the offered quotation (if there is only one quotation on the Relevant Screen Page); or
- (2) the arithmetic mean (rounded if necessary to the fifth decimal place, with 0.000005 being rounded upwards) of the offered quotations,

(expressed as a percentage rate per annum) for the Reference Rate which appears or appear, as the case may be, on the Relevant Screen Page as at 11.00 a.m. (London time, in the case of LIBOR, or Brussels time, in the case of EURIBOR) on the Interest Determination Date in question plus or minus (as indicated in the applicable Final Terms) the Margin (if any), all as determined by the Principal Paying Agent. If five or more such offered quotations are available on the Relevant Screen Page, the highest (or, if there is more than one such highest quotation, one only of such quotations) and the lowest (or, if there is more than one such lowest quotation, one only of such quotations) shall be disregarded by the Principal Paying Agent for the purpose of determining the arithmetic mean (rounded as provided above) of such offered quotations.

The Agency Agreement contains provisions for determining the Rate of Interest pursuant to this subparagraph (B) in the event that the Relevant Screen Page is not available or if, in the case of (1)

above, no such quotation appears or, in the case of (2) above, fewer than three such offered quotations appear, in each case as at the time specified in the preceding paragraph.

If the Reference Rate from time to time in respect of Floating Rate Notes is specified in the applicable Final Terms as being other than LIBOR or EURIBOR, the Rate of Interest in respect of such Notes will be determined as provided in the applicable Final Terms.

(iii) Minimum Rate of Interest and/or Maximum Rate of Interest

If the applicable Final Terms specify a Minimum Rate of Interest for any Interest Period, then the Rate of Interest for such Interest Period shall in no event be less than such Minimum Rate of Interest and/or if it specifies a Maximum Rate of Interest for any Interest Period, then the Rate of Interest for such Interest Period shall in no event be greater than such Maximum Rate of Interest.

(iv) Determination of Rate of Interest and Calculation of Interest Amount

The Principal Paying Agent, in the case of Floating Rate Notes, and the Calculation Agent, in the case of Index Linked Interest Notes, will, at or as soon as practicable after each time at which the Rate of Interest is to be determined, determine the Rate of Interest for the relevant Interest Period. In the case of Index Linked Interest Notes, the Calculation Agent will notify the Principal Paying Agent of the Rate of Interest for the relevant Interest Period as soon as practicable after calculating the same.

The Principal Paying Agent will calculate the amount of interest (the "Interest Amount") payable on the Floating Rate Notes or Index Linked Interest Notes in respect of each Specified Denomination for the relevant Interest Period. Each Interest Amount shall be calculated by applying the Rate of Interest to each Specified Denomination, multiplying such sum by the applicable Day Count Fraction, and rounding the resultant figure to the nearest sub-unit of the relevant Specified Currency, half of any such sub-unit being rounded upwards or otherwise in accordance with applicable market convention.

"Day Count Fraction" means, in respect of the calculation of an amount of interest in accordance with this Condition 5(b):

- (1) if "Actual/365" or "Actual/Actual (ISDA)" is specified in the applicable Final Terms, the actual number of days in the Interest Period divided by 365 (or, if any portion of that Interest Period falls in a leap year, the sum of (A) the actual number of days in that portion of the Interest Period falling in a leap year divided by 366 and (B) the actual number of days in that portion of the Interest Period falling in a non-leap year divided by 365);
- (2) if "Actual/365 (Fixed)" is specified in the applicable Final Terms, the actual number of days in the Interest Period divided by 365;
- (3) if "Actual/365 (Sterling)" is specified in the applicable Final Terms, the actual number of days in the Interest Period divided by 365 or, in the case of an Interest Payment Date falling in a leap year, 366;
- (4) if "Actual/360" is specified in the applicable Final Terms, the actual number of days in the Interest Period divided by 360;
- (5) if "30/360", "360/360" or "Bond Basis" is specified in the applicable Final Terms, the number of days in the Interest Period divided by 360 (the number of days to be calculated on the basis of a year of 360 days with 12 30-day months (unless (a) the last day of the Interest Period is the 31st day of a month but the first day of the Interest Period is a day other than the 30th or 31st day of a month, in which case the month that includes that last day shall not be considered to be shortened to a 30-day month, or (b) the last day of the Interest Period is the last day of the month of February, in which case the month of February shall not be considered to be lengthened to a 30-day month));
- (6) if "30E/360" or "Eurobond Basis" is specified in the applicable Final Terms, the number of days in the Interest Period divided by 360 (the number of days to be calculated on the basis of a year of 360 days with 12 30-day months, without regard to the date of the first day or last day of the Interest Period unless, in the case of an Interest Period ending on the Maturity Date, the Maturity Date is the last day

of the month of February, in which case the month of February shall not be considered to be lengthened to a 30-day month); and

(v) *Notification of Rate of Interest and Interest Amount.*

The Principal Paying Agent will cause the Rate of Interest and each Interest Amount for each Interest Period and the relevant Interest Payment Date to be notified to the Issuer and any stock exchange on which the relevant Floating Rate Notes or Index Linked Interest Notes are for the time being listed and notice thereof to be published in accordance with Condition 14 as soon as possible after their determination but in no event later than the fourth London Business Day (as defined below) following the commencement of the relevant Interest Period. Each Interest Amount and Interest Payment Date so notified may subsequently be amended (or appropriate alternative arrangements made by way of adjustment) in the event of an extension or shortening of the Interest Period. Any such amendment will be promptly notified to each stock exchange on which the relevant Floating Rate Notes are for the time being listed and to the Noteholders in accordance with Condition 14. For the purposes of this paragraph, the expression “London Business Day” means a day (other than a Saturday or a Sunday) on which banks and foreign exchange markets are open for business in London.

(vi) *Certificates to be Final*

All certificates, communications, opinions, determinations, calculations, quotations and decisions given, expressed, made or obtained for the purposes of the provisions of this paragraph (b) by the Principal Paying Agent or, if applicable, the Calculation Agent shall (in the absence of wilful default, bad faith or manifest error) be binding on the Issuer, the Principal Paying Agent, the Calculation Agent, if applicable, the other Agents and all Noteholders, Receiptholders and Couponholders and (in the absence as aforesaid) no liability to the Issuer, the Noteholders, the Receiptholders or the Couponholders shall attach to the Principal Paying Agent or, if applicable, the Calculation Agent in connection with the exercise or non-exercise by it of its powers, duties and discretions pursuant to such provisions.

(c) *Interest on Dual Currency Interest Notes*

The rate or amount of interest payable in respect of Dual Currency Interest Notes shall be determined in the manner specified in the applicable Final Terms.

(d) *Partly Paid Notes*

In the case of Partly Paid Notes (other than Partly Paid Notes which are Zero Coupon Notes), interest will accrue as aforesaid on the paid-up nominal amount of such Notes and otherwise as specified in the applicable Final Terms.

(e) *Accrual of Interest*

Each Note (or in the case of the redemption of part only of a Note, that part only of such Note) will cease to bear interest (if any) from the date for its redemption unless, upon due presentation thereof, payment of principal is improperly withheld or refused. In such event, interest will continue to accrue until whichever is the earlier of:

- (1) the date on which all amounts due in respect of such Note have been paid; and
- (2) five days after the date on which the full amount of the moneys payable has been received by the Principal Paying Agent or the Registrar, as the case may be, and notice to that effect has been given to the Noteholders in accordance with Condition 14.

## **6. Payments**

(a) *Method of Payment*

Subject as provided below:

- (i) payments in a Specified Currency other than euro will be made by transfer to an account in the relevant Specified Currency (which, in the case of a payment in Japanese yen to a non-resident of

Japan, shall be a non-resident account) maintained by the payee with, or by a cheque in such Specified Currency drawn on, a bank in the principal financial centre of the country of such Specified Currency; and

- (ii) payments in euro will be made by credit or transfer to a euro account (or any other account to which euro may be credited or transferred) specified by the payee or, at the option of the payee, by a euro cheque.

Payments will be subject in all cases to any fiscal or other laws and regulations applicable thereto in the place of payment, but without prejudice to the provisions of Condition 8.

*(b) Presentation of definitive Notes, Receipts and Coupons*

Other than in the case of definitive Notes in CF-form, payments of principal in respect of definitive Bearer Notes will (subject as provided below) be made in the manner provided in paragraph (a) above only against surrender of definitive Bearer Notes, and payments of interest in respect of definitive Bearer Notes will (subject as provided below) be made as aforesaid only against surrender of Coupons, in each case at the specified office of any Paying Agent outside the United States.

Payments of principal in respect of any definitive Bearer Notes in CF-form will be made in the manner provided in paragraph (a) above only against surrender of definitive Bearer Notes together with the Coupon sheet attached. Payments of interest in respect of any definitive Bearer Notes in CF-form will be made in conformity with the agreement concluded between the Issuer and the “Algemeen Obligatiekantoor van het Centrum voor Fondsenadministratie B.V.” (the “Obligatiekantoor”) in Amsterdam, under which agreement the Issuer has accepted the rules and regulations of the Obligatiekantoor.

Payments of instalments of principal (if any), other than the final instalment, will (subject as provided below) be made in the manner provided in paragraph (a) above against presentation and surrender of the relevant Receipt. Payment of the final instalment will be made in the manner provided in paragraph (a) above against surrender of the relevant Bearer Note. Each Receipt must be presented for payment of the relevant instalment together with the definitive Bearer Note to which it appertains. Receipts presented without the definitive Bearer Note to which they appertain do not constitute valid obligations of the Issuer. Upon the date on which any definitive Bearer Note becomes due and repayable, unmatured Receipts (if any) relating thereto (whether or not attached) shall become void and no payment shall be made in respect thereof.

Fixed Rate Notes in definitive bearer form (other than Dual Currency Notes, Index Linked Notes and Long Maturity Notes (as defined below)) should be presented for payment together with all unmatured Coupons appertaining thereto (which expression shall for this purpose include Coupons falling to be issued on exchange of matured Talons), failing which the amount of any missing unmatured Coupon (or, in the case of payment not being made in full, the same proportion of the amount of such missing unmatured Coupon as the sum so paid bears to the sum due) will be deducted from the sum due for payment. Each amount of principal so deducted will be paid in the manner mentioned above against surrender of the relative missing Coupon at any time before the expiry of ten years after the Relevant Date (as defined in Condition 8) in respect of such principal (whether or not such Coupon would otherwise have become void under Condition 9) or, if later, five years from the date on which such Coupon would otherwise have become due. Upon any Fixed Rate Note in bearer form becoming due and repayable prior to its Maturity Date, all unmatured Receipts and Talons (if any) appertaining thereto will become void and no payments in respect of any such Receipts and no further Coupons in respect of any such Talons will be made or issued, as the case may be.

Upon the date on which any Floating Rate Note, Dual Currency Note, Index Linked Note or Long Maturity Note in definitive bearer form becomes due and repayable, unmatured Receipts, Coupons and Talons (if any) relating thereto (whether or not attached) shall become void and no payment or, as the case may be, exchange for further Coupons shall be made in respect thereof. Where any such Note is presented for redemption without all unmatured Receipts, Coupons or Talons relating to it, redemption shall be made only against the provision of such indemnity as the Issuer may require. A “Long Maturity Note” is a Fixed Rate Note in bearer form (other than a Fixed Rate Note which on issue had a Talon attached) whose nominal amount on issue is less than the aggregate interest payable thereon provided that such Note shall cease to be a Long

Maturity Note on the Interest Payment Date on which the aggregate amount of interest remaining to be paid after that date is less than the nominal amount of such Note.

If the due date for redemption of any definitive Bearer Note is not an Interest Payment Date, interest (if any) accrued in respect of such Note from (and including) the preceding Interest Payment Date or, as the case may be, the Interest Commencement Date shall be payable only against surrender of the relevant definitive Bearer Note.

(c) *Payments in respect of global Bearer Notes*

Payments of principal and interest (if any) in respect of Notes represented by any global Note in bearer form will (subject as provided below) be made in the manner specified above in relation to definitive Bearer Notes and otherwise in the manner specified in the relevant bearer global Bearer Note against presentation or surrender, as the case may be, of such global Bearer Note at the specified office of any Paying Agent outside the United States. A record of each payment made against presentation or surrender of such global Bearer Note, distinguishing between any payment of principal and any payment of interest, will be made on such global Bearer Note by such Paying Agent and such record shall be *prima facie* evidence that the payment in question has been made.

(d) *Payments in respect of Registered Notes*

Payments of principal (other than instalments of principal prior to the final instalment) in respect of each Registered Note (whether or not in global form) will be made against presentation and surrender (or, in the case of part payment of any sum due, endorsement) of the Registered Note at the specified office of the Registrar or any of the Paying Agents. Such payments will be made by transfer to the Designated Account (as defined below) of the holder (or the first named of joint holders) of the Registered Note appearing in the register of holders of the Registered Notes maintained by the Registrar (the "Register") at the close of business on the third business day (being for this purpose a day on which banks are open for business in the city where the specified office of the Registrar is located) before the relevant due date. Notwithstanding the previous sentence, if (i) a holder does not have a Designated Account or (ii) the principal amount of the Notes held by a holder is less than U.S.\$250,000 (or its approximate equivalent in any other Specified Currency), payment will instead be made by a cheque in the Specified Currency drawn on a Designated Bank (as defined below). For these purposes, "Designated Account" means the account (which, in the case of a payment in Japanese yen to a non-resident of Japan, shall be a non-resident account) maintained by a holder with a Designated Bank and identified as such in the Register and "Designated Bank" means (in the case of payment in a Specified Currency other than euro) a bank in the principal financial centre of the country of such Specified Currency and (in the case of a payment in euro) any bank which processes payments in euro.

Payments of interest and payments of instalments of principal (other than the final instalment) in respect of each Registered Note (whether or not in global form) will be made by a cheque in the Specified Currency drawn on a Designated Bank and mailed by uninsured mail on the business day in the city where the specified office of the Registrar is located immediately preceding the relevant due date to the holder (or the first named of joint holders) of the Registered Note appearing in the Register at the close of business on the fifteenth day (whether or not such fifteenth day is a business day) before the relevant due date (the "Record Date") at his address shown in the Register on the Record Date and at his risk. Upon application of the holder to the specified office of the Registrar not less than three business days in the city where the specified office of the Registrar is located before the due date for any payment of interest in respect of a Registered Note, the payment may be made by transfer on the due date in the manner provided in the preceding paragraph. Any such application for transfer shall be deemed to relate to all future payments of interest (other than interest due on redemption) and instalments of principal (other than the final instalment) in respect of the Registered Notes which become payable to the holder who has made the initial application until such time as the Registrar is notified in writing to the contrary by such holder. Payment of the interest due in respect of each Registered Note on redemption and the final instalment of principal will be made in the same manner as payment of the principal amount of such Registered Note.

Holders of Registered Notes will not be entitled to any interest or other payment for any delay in receiving any amount due in respect of any Registered Note as a result of a cheque posted in accordance with this

Condition arriving after the due date for payment or being lost in the post. No commissions or expenses shall be charged to such holders by the Registrar in respect of any payments of principal or interest in respect of the Registered Notes.

All amounts payable to DTC or its nominee as registered holder of a Registered Global Note in registered form in respect of Notes denominated in a Specified Currency other than U.S. dollars shall be paid by transfer by the Registrar to an account in the relevant Specified Currency of the Exchange Agent on behalf of DTC or its nominee for payment in such Specified Currency for conversion into and payment in U.S. dollars in accordance with the provisions of the Agency Agreement.

None of the Issuer or the Agents will have any responsibility or liability for any aspect of the records relating to, or payments made on account of, beneficial ownership interests in the Registered Global Notes or for maintaining, supervising or reviewing any records relating to such beneficial ownership interests.

*(e) General provisions applicable to payments*

The holder of a global Note shall be the only person entitled to receive payments in respect of Notes represented by such global Note and the Issuer will be discharged by payment to, or to the order of, the holder of such global Note in respect of each amount so paid. Each of the persons shown in the records of Euroclear, Clearstream, Luxembourg or DTC as the beneficial holder of a particular nominal amount of Notes represented by such global Note must look solely to Euroclear and/or Clearstream, Luxembourg or DTC, for his share of each payment so made by the Issuer to, or to the order of, the holder of such global Note. No person other than the holder of such global Note shall have any claim against the Issuer in respect of any payments due on that global Note.

Notwithstanding the foregoing, U.S. dollar payments of principal and interest in respect of the Notes will be made at the specified office of a Paying Agent in the United States (which expression, as used herein, means the United States of America (including the States and the District of Columbia, its territories, its possessions and other areas subject to its jurisdiction)) if:

- (i) the Issuer has appointed Paying Agents with specified offices outside the United States with the reasonable expectation that such Paying Agents would be able to make payment in U.S. dollars at such specified offices outside the United States of the full amount of principal and interest on the Notes in the manner provided above when due;
- (ii) payment of the full amount of such interest at all such specified offices outside the United States is illegal or effectively precluded by exchange controls or other similar restrictions on the full payment or receipt of principal and interest in U.S. dollars; and
- (iii) such payment is then permitted under United States law without involving, in the opinion of the Issuer, adverse tax consequences to the Issuer.

*(f) Payment Day*

If the date for payment of any amount in respect of any Note, Receipt or Coupon is not a Payment Day, the holder thereof shall not be entitled to payment until the next following Payment Day in the relevant place and shall not be entitled to any further interest or other payment in respect of such delay. For these purposes (unless otherwise specified in the applicable Final Terms), "Payment Day" means any day which, subject to Condition 9, is:

- (i) a day on which commercial banks and foreign exchange markets settle payments and are open for general business (including dealing in foreign exchange and foreign currency deposits) in:
  - (A) the relevant place of presentation;
  - (B) London; and
  - (C) any Additional Financial Centre specified in the applicable Final Terms;

- (ii) either (1) in relation to any sum payable in a Specified Currency other than euro, a day on which commercial banks and foreign exchange markets settle payments and are open for general business (including dealing in foreign exchange and foreign currency deposits) in the principal financial centre of the country of the relevant Specified Currency (if other than the place of presentation and any Additional Financial Centre) or (2) in relation to any sum payable in euro, a day on which the TARGET System is open; and
- (iii) in the case of any payment in respect of a Registered Global Note denominated in a Specified Currency other than U.S. dollars and registered in the name of DTC or its nominee and in respect of which an accountholder of DTC (with an interest in such Registered Global Note) has elected to receive any part of such payment in U.S. dollars, a day on which commercial banks are not authorised or required by law or regulation to be closed in New York City.

(g) *Interpretation of Principal and Interest*

Any reference in these Terms and Conditions to principal in respect of the Notes shall be deemed to include, as applicable:

- (i) any additional amounts which may be payable with respect to principal under Condition 8;
- (ii) the Final Redemption Amount of the Notes;
- (iii) the Early Redemption Amount of the Notes;
- (iv) the Optional Redemption Amount(s) (if any) of the Notes;
- (v) in relation to Instalment Notes, the Instalment Amounts;
- (vi) in relation to Zero Coupon Notes, the Amortised Face Amount as defined in Condition 7; and
- (vii) any premium and any other amounts (other than interest) which may be payable by the Issuer under or in respect of the Notes.

Any reference in these Terms and Conditions to interest in respect of the Notes shall be deemed to include, as applicable, any additional amounts which may be payable with respect to interest under Condition 8.

## **7. Redemption and Purchase**

(a) *At Maturity*

Unless previously redeemed or purchased and cancelled as specified below, each Note, including each Index Linked Redemption Note and Dual Currency Redemption Note, will be redeemed by the Issuer at its Final Redemption Amount specified in, or determined in the manner specified in, the applicable Final Terms in the relevant Specified Currency on the Maturity Date.

(b) *Redemption for Tax Reasons*

If so specified in the applicable Final Terms, Notes may be redeemed at the option of the Issuer in whole, but not in part, at any time (in the case of Notes other than Floating Rate Notes, Index Linked Interest Notes or Dual Currency Interest Notes) or on any Interest Payment Date (in the case of Floating Rate Notes, Index Linked Interest Notes or Dual Currency Interest Notes), on giving not less than 30 nor more than 60 days' notice to the Noteholders in accordance with Condition 14 (which notice shall be irrevocable) if, on the occasion of the next payment due under the Notes, the Issuer has or will become obliged to pay additional amounts as provided or referred to in Condition 8 as a result of any change in, or amendment to, the laws or regulations of The Netherlands or any political subdivision or any authority thereof or therein having power to tax, or any change in the application or official interpretation of such laws or regulations, which change or amendment becomes effective on or after the Issue Date of the first Tranche of the Notes. Notes redeemed pursuant to this Condition 7(b) will be redeemed at their Early Redemption Amount referred to in paragraph (e) below together (if appropriate) with interest accrued to (but excluding) the date of redemption.

*(c) Redemption at the Option of the Issuer (Issuer Call)*

If Issuer Call is specified in the applicable Final Terms, the Issuer may, having given:

- (i) not less than 15 nor more than 30 days' notice to the Noteholders in accordance with Condition 14; and
- (ii) not less than 15 days before the giving of the notice referred to in (i), notice to the Principal Paying Agent and, in the case of a redemption of Registered Notes, the Registrar,

(both of which notices shall be irrevocable), redeem all or some only of the Notes then outstanding on the Optional Redemption Date(s) and at the Optional Redemption Amount(s) specified in, or determined in the manner specified in, the applicable Final Terms together, if appropriate, with interest accrued to (but excluding) the Optional Redemption Date(s).

Any such redemption must be of a nominal amount not less than the Minimum Redemption Amount or not more than a Higher Redemption Amount, in each case as may be specified in the applicable Final Terms. In the case of a partial redemption of Notes, the Notes to be redeemed ("Redeemed Notes") will be selected individually by lot, in the case of Redeemed Notes represented by definitive Notes, and in accordance with the rules of Euroclear, Clearstream, Luxembourg, DTC and/or Euroclear Netherlands, in the case of Redeemed Notes represented by a global Note, not more than 30 days prior to the date fixed for redemption (such date of selection being hereinafter called the "Selection Date"). In the case of Redeemed Notes represented by definitive Notes, a list of the serial numbers of such Redeemed Notes will be published in accordance with Condition 14 not less than 15 days prior to the date fixed for redemption. The aggregate nominal amount of Redeemed Notes represented by definitive Notes shall bear the same proportion to the aggregate nominal amount of all Redeemed Notes as the aggregate nominal amount of definitive Notes outstanding bears to the aggregate nominal amount of the Notes outstanding, in each case on the Selection Date, provided that such first mentioned nominal amount shall, if necessary, be rounded downwards to the nearest integral multiple of the Specified Denomination, and the aggregate nominal amount of Redeemed Notes represented by a global Note shall be equal to the balance of the Redeemed Notes. No exchange of the relevant global Note will be permitted during the period from and including the Selection Date to and including the date fixed for redemption pursuant to this paragraph (c) and notice to that effect shall be given by the Issuer to the Noteholders in accordance with Condition 14 at least 5 days prior to the Selection Date.

*(d) Redemption of Notes at the Option of the Noteholders (Investor Put)*

If Investor Put is specified in the applicable Final Terms, upon the holder of any Note giving to the Issuer in accordance with Condition 14 not less than 15 nor more than 30 days' notice or such other period of notice as is specified in the applicable Final Terms, the Issuer will, upon the expiry of such notice, redeem, subject to, and in accordance with, the terms specified in the applicable Final Terms, such Note on the Optional Redemption Date and at the Optional Redemption Amount specified in, or determined in the manner specified in, the applicable Final Terms together, if appropriate, with interest accrued to (but excluding) the Optional Redemption Date. Registered Notes may be redeemed under this Condition 7(d) in any multiple of their lowest Specified Denomination.

If the Notes are in definitive form and held outside Euroclear and Clearstream, Luxembourg, to exercise the right to require redemption of the Notes its holder must deliver such Notes at the specified office of any Paying Agent (in the case of Bearer Notes) or the Registrar (in the case of Registered Notes) at any time during normal business hours of such Paying Agent or, as the case may be, the Registrar falling within the notice period, accompanied by a duly signed and completed notice of exercise in the form (for the time being current) obtainable from any specified office of any Paying Agent or, as the case may be, the Registrar (the "Put Notice") and in which the holder must specify a bank account (or, if payment is by cheque, an address) to which payment is to be made under this Condition and, in the case of Registered Notes, the nominal amount thereof to be redeemed and, if less than the full nominal amount of the Registered Notes so surrendered is to be redeemed, an address to which a new Registered Note in respect of the balance of such Registered Notes is to be sent subject to and in accordance with the provisions of Condition 2(b). If this Note is represented by a global Note or is in definitive form and held through Euroclear or Clearstream, Luxembourg, to exercise the right to require redemption of this Note the holder of this Note must, within the

notice period, give notice to the Principal Paying Agent of such exercise in accordance with the standard procedures of Euroclear and Clearstream, Luxembourg (which may include notice being given on his instruction by Euroclear or Clearstream, Luxembourg or any common depositary for them to the Principal Paying Agent by electronic means) in a form acceptable to Euroclear and Clearstream, Luxembourg from time to time and, if this Note is represented by a global Note, at the same time present or procure the presentation of the relevant global Note to the Principal Paying Agent for notation accordingly. If this Note is in definitive form and not held through Euroclear or Clearstream, Luxembourg, the Put Notice must be accompanied by this Note or evidence satisfactory to the Paying Agent concerned that this Note will, following delivery of the Put Notice, be held to its order or under its control.

*(e) Early Redemption Amount*

For the purpose of paragraph (b) above and Condition 10, the Notes will be redeemed at the Early Redemption Amount calculated as follows:

- (i) in the case of a Note (other than a Zero Coupon Note but including an Instalment Note and a Partly Paid Note) with a Final Redemption Amount which is or may be less or greater than the Issue Price or which is payable to a Specified Currency other than that in which the Note is denominated, at the amount specified in, or determined in the manner specified in, the applicable Final Terms or, if no such amount or manner is so specified in the applicable Final Terms, at its nominal amount; or
- (ii) in the case of a Zero Coupon Note, at an amount (the “Amortised Face Amount”) calculated in accordance with the following formula:

$$\text{Early Redemption Amount} = \text{RP} \times (1 + \text{AY})^y$$

where:

“RP” means the Reference Price; and

“AY” means the Accrual Yield; and

“y” is a fraction the numerator of which is equal to the number of days (calculated on the basis of a 360-day year consisting of 12 months of 30 days each) from (and including) the Issue Date of the first Tranche of the Notes to (but excluding) the date fixed for Redemption or (as the case may be) the date upon which such Note becomes due and repayable and the denominator of which is 360,

or on such other calculation basis as may be specified in the applicable Final Terms.

- (iii) in any other case, at the amount specified in, or determined in the manner specified in, the applicable Final Terms or, if no such amount or manner is so specified in the applicable Final Terms, at their nominal amount.

*(f) Instalments*

Instalment Notes will be repaid in the Instalment Amounts and on the Instalment Dates. In the case of early redemption, the Early Redemption Amount will be determined pursuant to paragraph (e) above.

*(g) Partly Paid Notes*

If the Notes are Partly Paid Notes, they will be redeemed, whether at maturity, early redemption or otherwise, in accordance with the provisions of this Condition and the applicable Final Terms.

*(h) Purchases*

The Issuer or any of its subsidiaries may at any time purchase Notes (provided that, in the case of definitive Bearer Notes, all unmatured Receipts, Coupons and Talons appertaining thereto are purchased therewith) at any price in the open market or otherwise. Such Notes may be held, re-issued, resold or, at the option of the Issuer, surrendered to any Paying Agent and/or the Registrar for cancellation.

(i) *Cancellation*

All Notes which are redeemed will subject to paragraph (h) above forthwith be cancelled (together with all unmatured Receipts and Coupons attached thereto or surrendered therewith at the time of redemption). All Notes so cancelled and any Notes purchased and cancelled pursuant to paragraph (h) above (together with all unmatured Receipts and Coupons cancelled therewith) shall be forwarded to the Principal Paying Agent and cannot be re-issued or resold.

(j) *Late Payment on Zero Coupon Notes*

If the amount payable in respect of any Zero Coupon Note upon redemption of such Zero Coupon Note pursuant to paragraph (a), (b), (c) or (d) above or upon its becoming due and repayable as provided in Condition 10 is improperly withheld or refused, the amount due and repayable in respect of such Zero Coupon Note shall be the amount calculated as provided in paragraph (e)(ii) above as though the references therein to the date fixed for the redemption or the date upon which such Zero Coupon Note becomes due and payable were replaced by references to the date which is the earlier of:

- (i) the date on which all amounts due in respect of such Zero Coupon Note have been paid; and
- (ii) five days after the date on which the full amount of the moneys payable has been received by the Principal Paying Agent or the Registrar and notice to that effect has been given to the Noteholders in accordance with Condition 14.

**8. Taxation**

All payments of principal and interest in respect of the Notes, Receipts and Coupons by or on behalf of the Issuer will be made without withholding or deduction for or on account of any present or future taxes or duties, assessments or governmental charges of whatever nature imposed or levied by or on behalf of The Netherlands or any political subdivision or any authority thereof or therein having power to tax, unless such withholding or deduction is required by law. In such event, the Issuer will, depending on which provision is specified in the applicable Final Terms either:

- (a) make the required withholding or deduction of such taxes, duties, assessments or governmental charges for the account of the holders of the Notes, Receipts or Coupons, as the case may be, and shall not pay any additional amounts to the holders of the Notes, Receipts or Coupons; or
- (b) pay such additional amounts as shall be necessary in order that the net amounts received by the holders of the Notes, Receipts or Coupons after such withholding or deduction shall equal the respective amounts of principal and interest which would otherwise have been receivable in respect of the Notes, Receipts or Coupons, as the case may be, in the absence of such withholding or deduction; except that no such additional amounts shall be payable with respect to any Note, Receipt or Coupon:
  - (i) presented for payment by or on behalf of a Noteholder, Receiptholder or Couponholder who is liable for such taxes or duties in respect of such Note, Receipt or Coupon by reason of his having some connection with The Netherlands other than the mere holding of such Note, Receipt or Coupon or the receipt of principal or interest in respect thereof; or
  - (ii) presented for payment by or on behalf of a Noteholder, Receiptholder or Couponholder who would not be liable or subject to the withholding or deduction by making a declaration of non-residence or other similar claim for exemption to the relevant tax authority; or
  - (iii) presented for payment more than 30 days after the Relevant Date (as defined below) except to the extent that the holder thereof would have been entitled to an additional amount on presenting the same for payment on such thirtieth day; or
  - (iv) where such withholding or deduction is imposed on a payment to an individual and is required to be made pursuant to European Council Directive 2003/48/EC or any other European Union Directive implementing the conclusions of the ECOFIN Council meeting of 26th-27th

November, 2000 on the taxation of savings income or any law implementing or complying with, or introduced in order to conform to, such Directive; or

- (v) presented for payment by or on behalf of a holder who would have been able to avoid such withholding or deduction by presenting the relevant Note, Receipt or Coupon to another Paying Agent in a Member State of the European Union.

As used herein, the “Relevant Date” means the date on which such payment first becomes due, except that, if the full amount of the moneys payable has not been duly received by the Principal Paying Agent or the Registrar, on or prior to such due date, it means the date on which, the full amount of such moneys having been so received, notice to that effect is duly given to the Noteholders in accordance with Condition 14.

## **9. Prescription**

The Notes, Receipts and Coupons will become void unless presented for payment within a period of five years after the date on which such payment first becomes due.

There shall not be included in any Coupon sheet issued on exchange of a Talon any Coupon the claim for payment in respect of which would be void pursuant to this Condition or Condition 6(b) or any Talon which would be void pursuant to Condition 6(b).

## **10. Events of Default**

If any one or more of the following events (each an “Event of Default”) shall have occurred and be continuing:

- (i) there is failure for more than 14 days in the payment of any principal or interest in respect of any Note when and as the same is due to be paid; or
- (ii) the Issuer fails to perform or observe any of its other obligations under the Notes and such failure continues for a period of 30 days next following the service on the Issuer of notice requiring the same to be remedied; or
- (iii) the Issuer fails in the due repayment of borrowed money in an amount which exceeds U.S.\$30,000,000 (or its equivalent in other currency or currencies) and such failure continues for a period of 14 days after notice of such failure has been received by the Issuer or the Issuer fails to honour a guarantee or indemnity in respect of an amount in excess of U.S.\$30,000,000 (or its equivalent in other currency or currencies) and such failure continues for a period of 14 days after notice of such failure has been received by the Issuer, provided however always that in each case no Event of Default shall be deemed to have occurred if the Issuer is contesting its liability in good faith or shall have been ordered not to make such payment by a competent court; or
- (iv) the Issuer becomes bankrupt or subject to a “surséance van betaling” or an order is made or an effective resolution is passed for the winding-up or liquidation of the Issuer (except if such order or resolution is made or passed for the purposes of any merger, consolidation or reconstruction in the case where either (a) prior consent thereto has been given by Extraordinary Resolution of the Noteholders or (b) the surviving or resulting company assumes all of the rights and obligations of the Issuer with respect to the Notes); or
- (v) the Issuer ceases to carry on substantially the whole of its business except for the purposes of any merger, consolidation or reconstruction in the case where either (a) prior consent thereto has been given by Extraordinary Resolution of the Noteholders or (b) the surviving or resulting company assumes all of the rights and obligations of the Issuer with respect to the Notes;

then each Noteholder may by written notice to the Issuer, at the specified office of the Principal Paying Agent, effective upon the date of receipt thereof by the Principal Paying Agent, declare the principal of and all interest accrued on its Notes to the date of payment to be forthwith due and payable, and the same shall become immediately due and payable, unless prior to the time when such written notice is received all such defaults have been cured.

The applicable Final Terms may specify any variations to the above Events of Default in the case of an issue of Subordinated Notes.

## **11. Replacement of Notes, Receipts, Coupons and Talons**

Should any Note, Receipt, Coupon or Talon be lost, stolen, mutilated, defaced or destroyed, it may be replaced at the specified office of the Principal Paying Agent (in the case of Bearer Notes, Receipts or Coupons) or the Registrar (in the case of Registered Notes) upon payment by the claimant of such costs and expenses as may be incurred in connection therewith and on such terms as to evidence and indemnity as the Issuer may reasonably require. Mutilated or defaced Notes, Receipts, Coupons or Talons must be surrendered before replacements will be issued.

## **12. Agents**

The names of the initial Agents and their initial specified offices are set out below.

The Issuer is entitled to vary or terminate the appointment of any Agent and/or appoint additional or other Agents and/or approve any change in the specified office through which any Agent acts, provided that:

- (i) so long as the Notes are listed or admitted to trading on any stock exchange, there will at all times be a Paying Agent, which may be the Principal Paying Agent, (in the case of Bearer Notes) and a Transfer Agent, which may be the Registrar, (in the case of Registered Notes) with a specified office in such place as may be required by the rules and regulations of the relevant stock exchange (or any other relevant authority);
- (ii) there will at all times be a Paying Agent with a specified office in a city in a member country of the European Union;
- (iii) there will at all times be a Principal Paying Agent and a Registrar;
- (iv) there will at all times be a Paying Agent with a specified office situated outside The Netherlands;
- (v) so long as any of the Registered Global Notes are registered in the name of a nominee for DTC, there will at all times be an Exchange Agent with a specified office in New York City; and
- (vi) the Issuer will ensure that it maintains a Paying Agent in an EU Member State that is not obliged to withhold or deduct tax pursuant to European Council Directive 2003/48/EC or any other European Union Directive implementing the conclusions of the ECOFIN Council meeting of 26th-27th November, 2000 on the taxation of savings income or any law implementing or complying with, or introduced in order to conform to, such Directive.

In addition, the Issuer shall forthwith appoint a Paying Agent having a specified office in New York City in the circumstances described in the final paragraph of Condition 6(e). Any variation, termination, appointment or change shall only take effect (other than in the case of insolvency, when it shall be of immediate effect) after not less than 30 nor more than 45 days' prior notice thereof shall have been given to the Noteholders in accordance with Condition 14.

The Agency Agreement contains provisions permitting any entity into which any Agent is merged or converted or with which it is consolidated or to which it transfers all or substantially all of its assets to become the successor agent. In the case of a change of any of the Paying Agents, a notice will be published in accordance with Condition 14.

## **13. Exchange of Talons**

On and after the Interest Payment Date on which the final Coupon comprised in any Coupon sheet matures, the Talon (if any) forming part of such Coupon sheet may be surrendered at the specified office of any Paying Agent in exchange for a further Coupon sheet including (if such further Coupon sheet does not include Coupons to (and including) the final date for the payment of interest due in respect of the Note to which it appertains) a further Talon, subject to the provisions of Condition 9. Each Talon shall, for the purposes of

these Terms and Conditions, be deemed to mature on the Interest Payment Date on which the final Coupon comprised in the relative Coupon sheet matures.

#### **14. Notices**

All notices regarding the Bearer Notes shall be published (i) in at least one daily newspaper of wide circulation in The Netherlands, (ii) if so specified in the applicable Final Terms, in a leading English language daily newspaper of general circulation in London and (iii) if and for so long as the Bearer Notes are listed on Euronext Amsterdam, in the Daily Official List (“Officiële Prijscourant”) of Euronext Amsterdam N.V. In the case of (ii) above, it is expected that any such publication will be made in the Financial Times in London. Any such notice will be deemed to have been given on the date of the first publication in all the newspapers in which such publication is required to be made.

All notices regarding the Registered Notes will be deemed to be validly given if sent by first class mail or (if posted to an address overseas) by airmail to the holders (or the first named of joint holders) at their respective addresses recorded in the Register and will be deemed to have been given on the fourth day after mailing and, in addition, for so long as any Registered Notes are listed on a stock exchange and the rules of the relevant authority of that stock exchange so require, such notice will be published in a daily newspaper of general circulation in the place or places required by the rules and regulations of that stock exchange.

Until such time as any definitive Notes are issued, there may (provided that, in the case of any publication required by a stock exchange, that stock exchange agrees), so long as the global Note(s) is or are held in its or their entirety on behalf of Euroclear and/or Clearstream, Luxembourg and/or DTC, be substituted for publication in some or all of the newspapers referred to above, the delivery of the relevant notice to Euroclear and/or Clearstream, Luxembourg and/or DTC for communication by them to the holders of the Notes. Any such notice shall be deemed to have been given to the holders of the Notes on the seventh day after the day on which the said notice was given to Euroclear and/or Clearstream, Luxembourg and/or DTC.

Where the identity of all the holders of the Notes is known to the Issuer, the Issuer may (provided that, in the case of any publication required by a stock exchange, that stock exchange agrees) give notices individually to such holders in lieu of publication as provided above.

Notices to be given by any holder of the Notes shall be in writing and given by lodging the same, together in the case of any Note in definitive form with the relative Note or Notes, with the Principal Paying Agent (in the case of Bearer Notes) or the Registrar (in the case of Registered Notes). Whilst any of the Notes are represented by a global Note, such notice may be given by any holder of a Note to the Principal Paying Agent or the Registrar via Euroclear and/or Clearstream, Luxembourg and/or DTC, as the case may be, in such manner as the Principal Paying Agent and Euroclear and/or Clearstream, Luxembourg and/or DTC, as the case may be, may approve for this purpose.

Whilst any of the Notes are represented by a global Note deposited with Euroclear Netherlands, the Issuer, the Agents and Euroclear Netherlands shall mutually agree on such rules for form and contents of communications between them as they may deem practical for the purpose of giving effect to these Terms and Conditions.

#### **15. Meetings of Noteholders, Modification and Waiver**

The Agency Agreement contains provisions for convening meetings of the Noteholders to consider any matter affecting their interests, including the sanctioning by Extraordinary Resolution of a modification of the Notes, the Receipts, the Coupons or certain provisions of the Agency Agreement. Such a meeting may be convened by the Issuer or Noteholders holding not less than five per cent. in nominal amount of the Notes for the time being remaining outstanding. The quorum at any such meeting for passing an Extraordinary Resolution is one or more persons holding or representing not less than 50 per cent. in nominal amount of the Notes for the time being outstanding, or at any adjourned meeting one or more persons being or representing Noteholders whatever the nominal amount of the Notes so held or represented, except that at any meeting the business of which includes the modification of certain provisions of the Notes, Receipts or Coupons (including modifying the date of maturity of the Notes or any date for payment of interest thereof, reducing or cancelling the amount of principal or the rate of interest payable in respect of the Notes or

altering the currency of payment of the Notes, Receipts or Coupons), the necessary quorum for passing an Extraordinary Resolution will be one or more persons holding or representing not less than two-thirds, or at any adjourned such meeting not less than one-third, in nominal amount of the Notes for the time being outstanding. An Extraordinary Resolution passed at any meeting of the Noteholders shall be binding on all the Noteholders, whether or not they are present at the meeting, and on all Receiptholders and Couponholders.

The Principal Paying Agent and the Issuer may agree, without the consent of the Noteholders, Receiptholders or Couponholders, to:

- (i) any modification (except as mentioned above) of the Notes, the Receipts, the Coupons or the Agency Agreement which is not materially prejudicial to the interests of the Noteholders; or
- (ii) any modification of the Notes, the Receipts, the Coupons or the Agency Agreement which is of a formal, minor or technical nature or is made to correct a manifest error or to comply with mandatory provisions of the law of the jurisdiction in which the Issuer is incorporated.

Any such modification shall be binding on the Noteholders, the Receiptholders and the Couponholders and any such modification shall be notified to the Noteholders in accordance with Condition 14 as soon as practicable thereafter.

## **16. Further Issues**

The Issuer shall be at liberty from time to time without the consent of the Noteholders, Receiptholders or Couponholders to create and issue further notes having terms and conditions the same as the Notes or the same in all respects save for the amount and date of the first payment of interest thereon and so that the same shall be consolidated and form a single Series with the outstanding Notes.

## **17. Substitution of the Issuer**

- (a) The Issuer (which for the purpose of this Condition, save where the context requires otherwise, includes any previous substitute of the Issuer) under this Condition may and the Noteholders, the Receiptholders and the Couponholders hereby irrevocably agree in advance that the Issuer under this Condition may at any time substitute any company (incorporated in any country in the world), of which more than 90 per cent. of the shares or other equity interest carrying voting rights are directly or indirectly held by the Issuer, as the principal debtor in respect of the Notes (any such company, the "Substituted Debtor"), provided that:
  - (i) such documents shall be executed, and notices be given, by the Substituted Debtor and the Issuer as the Principal Paying Agent may deem reasonably necessary to give full effect to the substitution and pursuant to which the Substituted Debtor shall undertake in favour of each Noteholder, Receiptholders and Couponholders to be bound by these Terms and Conditions and the provisions of the Agency Agreement as the principal debtor in respect of the Notes, Receipts and Coupons in place of the Issuer;
  - (ii) in accordance with and subject to Condition 8, no taxes or duties shall be required to be withheld or deducted at source in the territory where the Substituted Debtor is incorporated, domiciled or resident (unless the withholding or deduction would be borne by the Substituted Debtor, in which case sub-clause (b) of Condition 8 shall apply);
  - (iii) all necessary governmental and regulatory approvals and consents for such substitution and for the giving by the Issuer of the Guarantee (as defined below) in respect of the obligations of the Substituted Debtor shall have been obtained and be in full force and effect;
  - (iv) Condition 10 shall be deemed to be amended so that it shall also be an Event of Default under the said Condition if the Guarantee (as defined below) shall cease to be valid or binding on or enforceable against the Issuer;

and (if the Substituted Debtor is not the Issuer) upon the Notes, Receipts and Coupons becoming valid and binding obligations of the Substituted Debtor, the Issuer undertakes that it will irrevocably and unconditionally guarantee in favour of each Noteholder, Receiptholder and Couponholder the payment of all sums payable by the Substituted Debtor as such principal debtor (such guarantee of the Issuer to be substantially in the form scheduled to the Agency Agreement and herein referred to as the “Guarantee”).

- (b) The Substituted Debtor shall forthwith give notice of the substitution to the Noteholders, the Receiptholders and the Couponholders in accordance with Condition 14.

#### **18. Governing Law and Submission to Jurisdiction**

The Agency Agreement, the Notes, the Receipts and the Coupons are governed by, and shall be construed in accordance with, the laws of The Netherlands.

The Issuer submits to the exclusive jurisdiction of the courts of Amsterdam, The Netherlands, judging in first instance, and its appellate courts.

## **USE OF PROCEEDS**

The net proceeds from each issue of Notes will be applied by the Issuer for its general corporate purposes. If, in respect of any particular issue, there is a particular identified use of proceeds, this will be stated in the applicable Final Terms.

## DESCRIPTION OF THE COMPANY

All references to “we”, “us” and “our” in the description of the Company set out below on pages 63-109 of this Prospectus are references to the Company.

### 1. SELECTED FINANCIAL INFORMATION

#### 1.1 Three-year summary

The following tables show our selected historical financial data as of and for the years ended 31st December, 2002 through 2004. We derived the selected historical financial data from our Consolidated Financial Statements. Our Consolidated Balance Sheets as of 31st December, 2004, 2003 and 2002 and our related Consolidated Statements of Income and of Cash Flows for the three years ended 31st December, 2004 and the related Notes are incorporated by reference in this Prospectus.

Our Consolidated Financial Statements have been prepared in accordance with Dutch GAAP, which differs in certain significant respects from US GAAP. In 2004, these included significant differences in our accounting for goodwill and other intangible assets, capitalization of interest on UMTS licenses, derivatives and pension obligations. In 2003, these included significant differences in our accounting for impairment charges, capitalization of interest on UMTS licenses and pension obligations. In 2002, these included significant differences in our accounting for impairment charges, BellSouth’s exchange right, pension obligations and sales of assets. For further information on the differences between Dutch GAAP and US GAAP as they relate to us, please refer to the Notes to our Consolidated Financial Statements, which are incorporated by reference into this Prospectus.

With effect from 1st January, 2005 we will prepare our Consolidated Financial Statements in accordance with IFRS, see “Financial Information” below. Our quarterly and semi-annual reports for the three and six months ended 31st March, 2005 and 30th June, 2005, respectively were prepared in accordance with IFRS and comparative information has been prepared for 2004, see “General Information – Documents Available” below.

You should read this table together with the information set out under ‘Operating results’ in the 2004 Form 20-F and our Consolidated Financial Statements and the Notes thereto, each of which are incorporated by reference into this Prospectus.

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

	2004	2003	2002
Income Statement Data <sup>(1)</sup>			
In accordance with Dutch GAAP:			
Total operating revenues .. .. .	12,102	12,907	12,784
Operating profit .. .. .	2,457	3,108	(5,581)
Profit/(loss) before taxes .. .. .	1,837	2,246	(6,759)
Profit/(loss) after taxes .. .. .	1,511	2,731	(9,542)
Earnings per ordinary share and per ADS (non-diluted) <sup>(2)</sup> .. .. .	0.63	1.11	(3.94)
Earnings per ordinary share and per ADS on a fully diluted basis <sup>(2)</sup> .. .. .	0.63	1.09	(3.94)
Weighted average number of outstanding ordinary shares .. .. .	2,385,418,773	2,468,678,426	2,423,921,066
Weighted average number of outstanding ordinary shares on a fully diluted basis .. .. .	2,404,343,845	2,538,982,413	2,423,921,066
In accordance with US GAAP (as restated):			
Total operating revenues from continuing operations .. .. .	11,782	12,198	11,988
Operating profit from continuing operations .. .. .	2,462	(4,280)	614
Profit/(loss) before taxes from continuing operations <sup>(6)</sup> .. .. .	2,446	(4,366)	250
Effect of discontinued operations, net of taxes .. .. .	14	426	58
Effect of change in accounting principle, net of taxes .. .. .	–	20	(14,179)
Profit/(loss) after taxes <sup>(6)</sup> .. .. .	2,079	(3,670)	(15,094)
Earnings per ordinary share and per ADS (non-diluted) from continuing operations <sup>(2,6)</sup> .. .. .	0.87	(1.67)	(0.40)
Earnings per ordinary share and per ADS on a fully diluted basis from continuing operations <sup>(2,6)</sup> .. .. .	0.86	(1.67)	(0.40)
Earnings per ordinary share and per ADS (non-diluted) from discontinued operations <sup>(2)</sup> .. .. .	0.01	0.17	0.02
Earnings per ordinary share and per ADS on a fully diluted basis from discontinued operations <sup>(2)</sup> .. .. .	0.01	0.17	0.02

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

	2004	2003	2002
Effect of change in accounting principle on earnings per ordinary share and per ADS (non-diluted) <sup>(2)</sup> .. .. .	0.00	0.01	(5.85)
Effect of change in accounting principle on earnings per ordinary share and per ADS on a fully diluted basis <sup>(2)</sup> .. .. .	0.00	0.01	(5.85)
Total earnings per ordinary share and per ADS (non-diluted) <sup>(2)</sup> .. ..	0.87	(1.49)	(6.23)
Total earnings per ordinary share and per ADS on a fully diluted basis <sup>(2)</sup> .. .. .	0.86	(1.49)	(6.23)
Weighted average number of outstanding ordinary shares .. .. .	2,385,418,773	2,468,678,426	2,423,921,066
Weighted average number of outstanding ordinary shares on a fully diluted basis .. .. .	2,404,343,845	2,468,678,426	2,423,921,066
<b>Balance Sheet Data</b>			
<b>In accordance with Dutch GAAP:</b>			
Total assets .. .. .	22,736	24,125	25,161
Long-term liabilities .. .. .	7,806	9,230	12,680
Provisions .. .. .	3,270	3,339	1,597
Exchange right .. .. .	-	-	-
Group equity* .. .. .	6,965	7,359	4,780
Capital stock (including additional paid-in capital) <sup>5</sup> .. .. .	15,866	16,866	16,866
Number of subscribed shares <sup>5</sup> .. .. .	2,329,399,969	2,490,996,877	2,490,996,877
<b>In accordance with US GAAP:</b>			
Total assets .. .. .	24,383	25,224	33,049
Long-term liabilities .. .. .	8,056	9,364	12,769
Provisions .. .. .	3,598	3,760	1,958
Exchange right .. .. .	-	-	-
Group equity* .. .. .	7,178	7,137	11,227
<b>Other Data (in accordance with Dutch GAAP)</b>			
Net cash provided by operating activities .. .. .	3,969	4,087	3,975
Net cash used in investing activities .. .. .	(1,594)	(48)	(335)
Net cash (used in) provided by financing activities .. .. .	(2,636)	(4,853)	(8,329)
Depreciation charges .. .. .	1,989	2,101	2,257
Amortization charges .. .. .	382	314	390
Impairment charges .. .. .	26	120	7,605
Restructuring charges .. .. .	80	60	77
Capital expenditure .. .. .	1,698	1,421	1,137
<b>Ratios (in accordance with Dutch GAAP)</b>			
Pay-out ratio <sup>(3)</sup> .. .. .	55.6%	22.5%	-
Dividend per ordinary share <sup>5</sup> .. .. .	0.35	0.25	-
Operating margin <sup>(4)</sup> .. .. .	20.3%	24.1%	(43.7%)
Solvency <sup>(5)</sup> .. .. .	30.6%	30.5%	19.0%

(1) Our results were affected by a number of substantial items in 2004, 2003 and 2002. In 2004, we recognized book gains of EUR 36 million on the sale of Eutelsat and EUR 20 million on the sale of PTC. In 2003, we recognized a gain resulting from the termination agreement with MobilCom of EUR 210 million, we reported a book gain on the sale of Directory Services of EUR 435 million, we reversed the impairment of GSM licenses of BASE of EUR 103 million, we reached an agreement with the tax authorities with a positive outcome of EUR 1,080 million and we reversed the adjustment to net realizable value of Hutchison 3G UK of EUR 119 million. In 2002, the main items were the impairment charges on goodwill of EUR 1.9 billion (E-Plus and BASE), the impairment charges on licenses (E-Plus and BASE) of EUR 5.4 billion, the impairment on Hutchison 3G UK of EUR 1.2 billion and the write-down of the deferred tax asset on E-Plus and BASE of EUR 606 million.

(2) Please refer to Note 11 of the 2004 Consolidated Financial Statements for a discussion on the method used to calculate profit or loss per share.

(3) Payout ratio: proposed dividend per ordinary share divided by earnings per (ordinary) share as determined under Dutch GAAP.

(4) Operating margin: operating result divided by total operating revenues as determined under Dutch GAAP.

(5) Solvency: shareholder's equity plus minority interests (group equity) divided by total assets as determined under Dutch GAAP.

(6) Please refer to the Information on US GAAP for a description of the restatement of our profit or loss before and after taxes and earnings per share for the years 2002 and 2003 for the correction of the errors relating to the cumulative translation difference and the realization of the cumulative translation difference into income.

\* Since 31st December, 2004, we completed our €985 million share repurchase programme in which we repurchased 146 million shares and our €250 million share repurchase programme in which we repurchased 33 million shares. Since December 2004, 181 million shares have been repurchased which will be cancelled before the end of 2005. Following the merger of SNT, KPN Telecommerce B.V. and the Issuer, the number of outstanding ordinary shares increased by 3,000,031. Our shareholders also approved a 2004 dividend of €0.35 per ordinary share in April 2005. In August 2005, an interim dividend for the 2005 financial year of €0.13 per ordinary share was declared. See "Recent Developments" above.

## 1.2 Quarterly and Semi-Annual Reports

The following table sets forth selected data from our consolidated unaudited quarterly and semi-annual reports for the three and six months ended 31st March, 2005, 2004, 30th June, 2005 and 30th June 2004, respectively, prepared in accordance with IFRS. Complete copies of our consolidated unaudited quarterly and semi-annual reports for the three and six months ended 31st March, 2005 and 30th June, 2005, respectively are incorporated by reference in this Prospectus:

### Amounts in millions of euro, unless otherwise stated

	Q2/2005	Q2/2004	Q1/2005	Q1/2004
Operating revenues .. .. .	2,950	2,910	2,890	2,944
Net sales .. .. .	2,914	2,868	2,838	2,868
Operating profit .. .. .	556	680	516	675
Profit for the period .. .. .	239	398	273	414
Earnings per share (in euro) .. .. .	0.10	0.16	0.12	0.17
Cash flow from operating activities .. .. .	899	848	822	953
Less: capital expenditures (in PP&E and software) ..	324	377	232	307
Free cash flow .. .. .	575	471	590	646
Operating profit .. .. .	556	680	516	675
Add: depreciation, amortization and impairments ..	608	528	578	554
EBITDA <sup>(1)</sup> .. .. .	1,164	1,208	1,094	1,229

(1) EBITDA is defined as operating profit before depreciation and impairments of PP&E and amortization and impairments of goodwill, licenses and other intangibles. The measure is used by financial institutions and credit-rating agencies as one of the key indicators of borrowing potential. Many analysts use EBITDA as a component for their (cash flow) projections. Note that the Issuer's definition of EBITDA deviates from the literal definition of earnings before interest, taxes, depreciation and amortization. Either definition of EBITDA has limitations as an analytical tool and it should not be considered in isolation or as a substitute for analyses of the Issuer's results as reported under IFRS or US GAAP.

In the past, EBITDA was used as a measurement of certain aspects of operational performance and liquidity. The Issuer has used EBITDA as a component of its guidance. In view of the implementation of IFRS, and the resulting volatility of amortization, it believes that this is the most appropriate way of informing the financial markets on certain aspects of future company financial development. The Issuer does not view EBITDA as a measure of performance. In all cases, a reconciliation of EBITDA and the nearest GAAP measure (operating profit) will be provided.

## 2. RISK FACTORS

Please refer to the information under "Risk Factors" above for a description of the principal factors that may affect the Issuer's ability to fulfil its obligations under Notes issued under the Programme.

## 3. INFORMATION ABOUT THE ISSUER

### 3.1 History and Development of the Issuer

Koninklijke KPN N.V. was incorporated as a public limited liability company under the laws of the Netherlands on 1st January, 1989. On 28th June, 1998 our name was changed from Koninklijke PTT Nederland N.V. to Koninklijke KPN N.V. We have our corporate seat in The Hague, the Netherlands. We are registered under number 02045200 at the Commercial Register of the Chamber of Commerce for Haaglanden, The Hague, the Netherlands, and our executive offices are located at Maanplein 55, 2516 CK The Hague, the Netherlands. Our telephone number is (+31) 70 4460986. Our agent for service of process in the United States is KPN INS, Inc., 494 8th Avenue, 23rd floor, New York NY 10001.

KPN was incorporated with two main subsidiaries: PTT Telecom B.V., offering telecommunication services, and PTT Post B.V., serving as the primary postal company in the Netherlands. In the period from incorporation until the listing of our shares on Euronext Amsterdam in June 1994, the State of the Netherlands was our sole shareholder. At the end of 2004, the State held 20.69% of our outstanding shares. In January 2005, the State sold part of its interest and currently holds 14.25%.

The demerger of our mail, express and logistics business operations to TNT Post Group (TPG) was completed on 28th June, 1998, with retroactive effect from 1st January, 1998. The demerger resulted in the transfer of approximately EUR 1.6 billion of our equity to TPG.

In November 1999, we transferred our mobile business to a separately incorporated subsidiary, KPN Mobile N.V. KPN Mobile issued new shares to NTT DoCoMo in August 2000, as a result of which NTT DoCoMo held a 15% interest in KPN Mobile. In connection with a financial restructuring of KPN Mobile in December 2002, NTT DoCoMo elected not to exercise its anti-dilution rights, resulting in a decrease of its interest to 2.16%.

In February 2000, we completed our acquisition of a 77.49% indirect interest in E-Plus, Germany's third largest mobile network operator. Until 13th March, 2002 we shared control of E-Plus with BellSouth Corporation (BellSouth), which held the remaining 22.51% indirect interest. On 13th March, 2002, BellSouth converted its 22.51% indirect interest in E-Plus into 234.7 million of our ordinary shares (which BellSouth subsequently sold) and since then we have had full control of E-Plus.

Following the purchase of UMTS licenses and the acquisition of E-Plus in Germany, KPN initiated a refinancing program. The refinancing included share offerings in 2000 and 2001 and the sale of non-core assets, including our 21% interest in the Irish telecommunications operator eircom (November 2001), our 22.28% interest in the Indonesian mobile operator Telkomsel (11th December, 2001), our 44.66% interest in Pannon GSM in Hungary (4th February, 2002), Telefoongids Media B.V. (13th February, 2003), our 16.33% interest in Ukrainian Mobile Communications (28th February, 2003) and our direct and indirect interest of 6.48% and 13.8% respectively in Český Telecom (16th June, 2003 and 8th December, 2003).

Our activities are concentrated in the Netherlands, Germany and Belgium.

### ***Recent Developments***

On 19th January, 2005, the State of the Netherlands, as represented by the Ministry of Finance, announced that it sold 150 million ordinary shares in KPN, by way of a block sale to Lehman Brothers. The sale represented approximately 6% of KPN's outstanding share capital, and reduced the holding of the State of the Netherlands in KPN to 14.25%.

On 28th January, 2005, our 1.1% stake in Intelsat has been converted into a receivable of U.S.\$ 18.75 per share due to the closing of the merger between Intelsat and Zeus Holdings. We received payment of U.S.\$38 million on 7th March, 2005.

On 2nd February, 2005, we reached an agreement with Corcyra in Croatia on the sale of our 43.5% stake in EuroWeb International Corp. The sale involves two tranches. It is expected that the sale will be completed no later than 1st May, 2006.

On 7th February, 2005, the Netherlands Arbitration Institute ruled in a case that, in essence, deals with the minimum distances between telecommunications networks and gas networks. As clear standards were lacking, the arbitrators have now formulated minimum distance standards between telecommunications ducts and gas lines. KPN is assessing the ruling and its impact.

On 25th February, 2005, the sale of our 17.9% stake in Infonet to BT was closed. On 28th February, 2005 we received the proceeds of U.S.\$ 171.6 million.

On 28th February, 2005 KPN completed the sale of its Hungarian subsidiary PanTel Rt to a local telecom operator Hungarian Telephone and Cable Corp. The proceeds of €17 million in combination with the deconsolidation of PanTels bank debt, has lowered KPN's net debt by €79 million. With the sale of PanTel, KPN has finalized its divestment programme in Eastern Europe.

At the Annual General Meeting of Shareholders of KPN held on 12th April, 2005, a dividend for the 2004 financial year of €0.35 per ordinary share, was approved. After deduction of the interim dividend of €0.08 per ordinary share, the final dividend amounts to €0.27 per ordinary share, resulting in a total amount of €609 million.

On 14th April, we announced jointly with SNT Group N.V. (SNT) that we, KPN Telecommerce B.V., our 100% subsidiary, and SNT intend to effectuate a triangular merger. KPN Telecommerce B.V. will acquire the assets and liabilities of SNT, while we (as the holder of all the share capital of KPN Telecommerce B.V.) shall distribute approximately three million shares to the shareholders of SNT.

On 25th April, 2005, we redeemed a €204 million syndicated loan due 2005 in accordance with that loan's redemption schedule.

On 10th May, 2005, we restructured our international mobile activities in Germany and Belgium, bringing them under the sole leadership of Mr Stan Miller, currently CEO of BASE, our mobile operator in Belgium. This restructuring is a further step towards aligning our Group structure and operations in accordance with our strategy. Under this strategy, we are vigorously pursuing growth strategies as the 'challenger' to the local incumbents in Germany and Belgium, whilst the focus in the Netherlands is on 'market leadership' in both fixed and mobile.

On 25th May, 2005, we introduced Voice over IP for consumers, offering unlimited phone calls to all fixed telephone numbers in the Netherlands and unlimited fast Internet (through an ADSL internet connection) for a fixed price per month.

On 27th May, 2005, the extraordinary general meeting of shareholders of SNT Group N.V. (SNT) approved the juridical merger between SNT, KPN Telecommerce B.V., a 100% subsidiary of the Issuer, and the Issuer. As of 28th May 2005, SNT ceased to exist, as a result of which the listing of SNT shares on Euronext Amsterdam N.V. ended on 30th May, 2005.

On 30th May, 2005, E-Plus, our German mobile unit launched the first German mobile discount provider, simyo. No-frills mobile telephony is offered at two transparent discount rates, a €0.19 per-minute charge for all calls within Germany and €0.14 for sending a text message.

On 31st May, 2005, we announced our intention to restructure our call center activities by concentrating on call center activities that support the group's core business. The restructuring will lead to a reduction in call center agents of around 500 positions, expected to take place through natural turnover and the phasing out of temporary personnel. The restructuring will also lead to the loss of 130 jobs at the head office.

On 13th June, 2005, we completed our €985 million share repurchase programme, announced on 1st March, 2005. A total of 146 million shares were repurchased at an average price of €6.74 per share. The majority of these shares, 82%, were purchased via the secondary trading line, which was instituted for reasons of tax-efficiency.

On 15th June, 2005, we issued a €1,000,000,000 bond under our Global Medium Term Note Programme with a maturity of 10 years and a fixed coupon of 4%. The bond is listed on Euronext Amsterdam and the proceeds will be used to refinance debt and lengthen the maturity profile.

On 28th June, 2005 we reached an agreement in principle to acquire Telfort, the Dutch mobile operator, with 2.4 million subscribers, for a total consideration of €980 million on a debt and cash free basis. Depending on specific performance criteria this amount could be increased by a maximum of approximately €140 million. The acquisition will be financed from our existing financial resources, whilst remaining within the boundaries of our self-imposed financial framework. The acquisition was subject to approval by the NMa (the Dutch Competition Authority) and, on 30th August, 2005, the NMa determined that KPN is free to acquire Telfort.

On 1st July, 2005, OPTA (the Dutch Telecom Regulatory Authority) published their draft decisions and market analysis (under the new regulatory framework) in relation to several markets relevant to the Fixed division. Although KPN welcomes the deregulatory stance OPTA has taken on retail international voice, retail leased lines and wholesale ADSL, KPN strongly disagrees with various other draft decisions, in particular those on VoIP, wholesale line rental, and transit. KPN intends to challenge these draft decisions.

On 26th July, 2005, we and Tiscali reached final agreement concerning the acquisition by KPN of all of the more than 60,000 Tiscali ADSL customers who make use of our network for their ADSL connection.

On 1st August, 2005, E-Plus, our German mobile unit introduced the first flat fee for mobile phone use in Germany under the brand BASE. With BASE, mobile phone users pay a flat fee of €25 per month, which covers all calls to a German landline, all calls and text messages to other BASE and E-Plus customers as well as calls to the mailbox.

On 1st August, 2005, we announced that ABN AMRO Bank N.V. is outsourcing the majority of its worldwide mobile telecommunications to KPN. The five-year contract covers mobile connections for 22,000 bank personnel in 17 countries.

On 9th August, 2005, we declared an interim dividend for the 2005 financial year of €0.13 per ordinary share, resulting in a total amount of approximately €303 million (based on the total amount of shares outstanding as at 30th June, 2005).

Since December 2004, we have repurchased 181 million shares, which will be cancelled before the end of 2005.

On 15th August, 2005, KPN and Telstra signed a letter of intent with the Canadian based Stratos Global Corporation regarding the sale of Xantic B.V. Xantic B.V. specializes in global mobile satellite communications and KPN has a 65 per cent. stake in the company with the Australian Telstra owning 35 per cent. The total consideration will be approximately U.S.\$ 191 million in cash and the transaction is expected to close towards the end of 2005 or early in 2006.

On 15th August, 2005, the Supervisory Board of KPN announced that the current employment contract of Mr. A.J. Scheepbouwer (61), which was due to terminate on 1st July 2006, has been extended until no later than 1st July, 2009.

On 16th August, 2005, the Board of KPN confirmed that it was approached by Deutsche Telekom regarding the possibility of KPN acquiring the German business of O2 plc (“O2”), in the context of an offer for O2. The discussions with Deutsche Telekom, which were of a preliminary nature, are no longer taking place. The Board of KPN confirmed that it had no current intention to make an offer for O2.

On 24th August, 2005, E-Plus, our German mobile unit has agreed a strategic co-operation with music and entertainment channel VIVA, an MTV Networks broadcaster in Germany. Starting in the autumn of 2005, VIVA will market tailor-made mobile services for its core youth audience under its own brand.

On 12th September, 2005, we completed our €250 million share repurchase programme, announced on 9th August, 2005. A total of 32.8 million shares were repurchased at an average price of €7.62 per share. All of these shares were purchased via the secondary trading line, which was introduced for reasons of tax-efficiency. Since December 2004, we have repurchased 181 million shares, representing 7.8 per cent. of the total number of outstanding shares. the cancellation of these shares is scheduled to take place before the end of 2005.

On 13th September, 2005, XS4ALL, one of our ISPs signed a letter of intent to acquire Dutch internet provider hcc!net. The final purchase agreement is expected to be signed on 1st November, 2005.

### **3.2 Investments**

New services that we will be launching in 2005 include VoIP, Mobile TV and Video on Demand over ADSL. KPN will continue to offer Triple Pay services (voice, Internet and TV). Also in 2005, KPN will upgrade its ADSL network to ADSL2+. Further rollout of the digital TV network to reach national coverage will be realized in 2005 and 2006. An all IP access network pilot will be conducted, which may herald the complete rationalization of our network.

In the Mobile business we will continue to focus on expanding our customer base with appealing propositions with the aim of increasing our revenue market share. We will continue to invest in the expansion of our UMTS networks. UMTS brings higher download and upload speeds, which makes video messaging, and music and video downloading possible.

## *Commitments*

<b>Amounts in millions of Euro</b>	<b>31st December, 2004</b>	<b>31st December, 2003</b>
Commitments by virtue of:		
• Capital expenditure commitments .. .. .	273	266
• Rental contracts .. .. .	2,117	1,876
• Operational lease contracts .. .. .	107	125
• Guarantees .. .. .	32	40
• Purchasing commitments .. .. .	759	1,382
• Other commitments .. .. .	4	19
<b>Total</b> .. .. .	<b>3,292</b>	<b>3,708</b>

Of these commitments, EUR 1,096 million are of a short-term nature (2003: EUR 1,201 million). EUR 1,054 million are due after five years (2003: EUR 283 million).

### *Capital Expenditure Commitments*

Of these commitments, EUR 235 million are of a short-term nature (2003: EUR 263 million). The remaining part have a term of between 1 and 5 years.

### *Rental and Operational Lease Contracts*

Of these commitments, EUR 324 million are of a short-term nature (2003: EUR 335 million). EUR 969 million is due after five years (2003: EUR 197 million). The costs of operating leases (including rental charges) in 2004 totalled EUR 139 million (2003: EUR 189 million). These operating lease and rental commitments mainly relate to tangible fixed assets.

### *Guarantees*

The Guarantees reflected in the total amount of Commitments by virtue of Guarantees mainly consist of guarantees, in which we guarantee the financial obligations of group companies under certain contracts. Particularly in the context of asset dispositions, KPN has taken on additional commitments and contingent liabilities that are discussed below.

### *Purchasing Commitments*

Of these commitments, EUR 446 million is of a short-term nature (2003: 583 million).

EUR 48 million is due after five years (2003: EUR 61 million).

As part of the disposal of our non-core assets we sold our Datacenter, SoftwareHouse and End User Services to Atos Origin in 2001 and 2002 respectively. Until 22nd June, 2004, we had guaranteed a level of revenues to Atos Origin in relation to Datacenter and End User Services. The guarantees provided for a specified annual level of revenues through 2007 and required us to make up a specified portion of the shortfall in any year. As of 22nd June, 2004, this system of revenue guarantees has been replaced with retroactive effects as of 1st January, 2004 by a Key Performance Indicator (KPI) system. Under this KPI system a maximum amount of EUR 18 million has to be paid by KPN to Atos Origin, if Atos Origin meets certain preset KPIs over the period 1st January, 2004 – 31st December 2007. If KPN does not meet certain preset KPIs, KPN has to pay a maximum additional amount of EUR 15 million to Atos Origin over the same period.

On 1st January, 2003, the Dutch Organization for Applied Scientific Research (TNO) acquired the research and development activities of KPN, and TNO and KPN entered into a long-term contract with annual purchase commitments. In 2004, we extended the long-term contract with TNO for one year until 31st December, 2008. The total remaining commitments until 31st December, 2008 amount to EUR 64 million, which amount decrease over the remaining period. Our research and development expenditures charged by TNO Telecom in 2004 totalled approximately EUR 23 million (2003: 24 million).

On 13th February, 2003, we transferred (through our subsidiary KPN Directory Services B.V.) all of our shares in Telefoongids Media B.V. to a syndicate led by 3i Group (3i) and Veronis Suhler Stevenson (VSS) for a cash sum of approximately EUR 500 million. The core portfolio of Telefoongids Media B.V. includes commercial telephone directories in printed form and telephone directories in electronic form, like the telephone directories on CD-ROMs and on the Internet. We have a statutory obligation to make universal telephone directories available to the public in the Netherlands until one year after the date on which we notify the competent authority that we will no longer do this. Our universal telephone directory has a printed form and consists of standard listings of telephone subscribers of the various telephone operators in the Netherlands. We agreed that our universal telephone directory shall be printed and distributed by Telefoongids Media B.V. Telefoongids Media B.V. is entitled to combine its commercial telephone directory in printed form with our directory in printed form. Our total commitments amount to EUR 110 million.

## **Requirements Under the UMTS Licence Agreements in Germany, the Netherlands and Belgium**

### *Germany*

In 2000, we acquired one of six UMTS licenses in Germany for EUR 8.4 billion. Under this license, the operators have rollout obligations for the UMTS networks.

In the first quarter 2004, Germany's Regulatory Authority for Telecommunications (RegTP) commenced administrative procedures to verify satisfaction of the coverage obligations under the UMTS licenses. As of 31st December, 2005, the minimum coverage requirement amounts to 50%.

### *The Netherlands*

Along with the other operators in the Dutch mobile market (Vodafone, T-Mobile and Orange), KPN Mobile acquired a UMTS license on 7th August, 2000.

Under the license, the operators must meet certain rollout obligations for the UMTS networks. As of 1st January, 2007, all built-up areas in municipalities with over 25,000 inhabitants, all main roads (car, rail and waterways) in between, all motorways to Germany and Belgium and the areas around the airports of Schiphol, Rotterdam and Maastricht should be covered at a minimum level of 144 Kb/s outdoors.

### *Belgium*

In March 2001, the three existing operators, BASE, Proximus and Mobistar obtained UMTS licenses in an auction organized by the Belgian government. Our license was obtained upon payment of a license fee of EUR 150 million. The license contains rollout obligations, which so far have been met. The future requirements to be met by 31st December, 2005, 2006, 2007 and 2008 are a population coverage of 30%, 40%, 50% and 85%, respectively.

## **4. BUSINESS OVERVIEW**

### **4.1 Introduction**

We offer telecommunication services to both consumers and businesses. Our core activities are telephony and data services through our fixed network in the Netherlands, mobile telecom services in Germany, the Netherlands and Belgium and data services in Western Europe. We are the market leader in the major segments of the Dutch telecom market. Through E-Plus in Germany and BASE in Belgium, we have number-three positions in the mobile markets of these countries.

As at 31st December, 2004, we served 7.4 million fixed-line subscribers and 1.6 million Internet users in the Netherlands as well as 17.2 million mobile customers in Germany, the Netherlands and Belgium. KPN employed 31,116 individuals as of the same date.

KPN was incorporated in 1989. Its shares are listed on Euronext Amsterdam and the stock exchanges of New York, London and Frankfurt. The credit ratings at 20th September, 2005 were A- with stable outlook (Standard & Poor's) and Baa1 with stable outlook (Moody's).

## 4.2 Business Segments

In 2005 we have executed restructuring initiatives, intended to align the strategy and organizational design. During the second quarter, both KPN's Mobile Headquarters organization and KPN Services were dismantled. The restructuring of the Fixed Division was completed by 1st April, 2005. The new structure is designed to ensure greater focus on revenue generation in the market and tighter cost management. In the new structure, Network Operations and Wholesale (focusing on operational assets, costs and operational excellence) have been separated from two retail units, Consumer and Business (focusing on customers, customer acquisition, revenues and margin). On 10th May, 2005, we restructured our international mobile activities in Germany and Belgium, bringing them under the sole leadership of Mr Stan Miller, currently CEO of BASE, our mobile operator in Belgium. This restructuring is a further step towards aligning our Group structure and operations in accordance with its strategy. Under this strategy, we are vigorously pursuing growth strategies as the 'challenger' to the local incumbents in Germany and Belgium, whilst the focus in the Netherlands is on 'market leadership' in both fixed and mobile.

### (a) Fixed division

*In prior years we described our business based on our reporting structure (by line of business). As we are currently in the process of changing our organizational structure, we describe the business based on our products and services we offer. In the Operating Results section of the 2004 Form 20-F, which is incorporated by reference into this Prospectus, we report by business line consistent with our reporting structure up to 31st March, 2005.*

We offer voice and data services through our fixed network in the Netherlands and data services in Western Europe. We are the leader in the traditional Dutch market segments, such as switched voice communication and leased data lines, and are actively growing our market share in the new IP and DSL markets.

Growth of revenues is a key challenge for all players in the industry, in particular for KPN as an incumbent operator in a very competitive market. The Netherlands continues to be one of the most competitive markets in Europe. In today's dynamically changing market, various competitors are trying to create new positions for themselves in areas such as VoIP and Triple Play (voice, Internet, and television). These new services are generally rendered at lower tariffs and the revenues of these new growth areas did not entirely compensate for the decline in the traditional services.

In order to counter these developments, our strategy in the Dutch fixed-line market is threefold:

- attacking the market for new communication services to establish leading positions that will deliver attractive long-term financial returns;
- defending the traditional services to maintain our leading share of declining markets;
- exploiting our leadership of both the traditional and new services markets in order to achieve a cost structure that is unrivaled by our competitors and which will represent a source of significant sustainable competitive advantage.

To fulfill our ambitions, the Fixed division is improving its position in the broadband market through intensive subscriber acquisition programs and by developing new, attractive, customer-focused broadband communication services (like ADSL, Voice over IP, IP-VPN, and KPN TV), as well as by offering improved bundled packages and services.

We have embarked on a comprehensive program to achieve a structurally lower cost base by reducing the complexity of the network through the implementation of an all IP network, rationalization of IT and simplification of the Group structure. Over the next five years, we expect substantial reductions in staff (including the earlier announced restructuring of EnterCom and IT operations).

The introduction of KPN TV services in October 2004 forms part of our 'Triple Play' strategy for the consumer market to offer our customers a combination of TV, Internet and telephony services. Another important element is the development of new voice services like Voice over IP (hereafter VoIP) and Voice over DSL (hereafter VoDSL). Broadband penetration in the Netherlands is among the highest in Europe.

With respect to our traditional voice services, we are focusing on customer retention through win-back programs and innovative bundling. We are conducting win-back actions through many different channels, including our own technicians.

In the business market, the number of leased lines decreased steadily during 2004 as a result of the strong uptake of broadband services such as IP-VPN. In 2004, competition in IP-based connectivity for the business market further intensified. Therefore, we focus on enriched communication combined with services designed to increase productivity and efficiency. Migration of corporate clients to an all-IP environment and managed and hosted IP telephony are examples of future offers. Our international portfolio (EuroRings), in particular, is competing in a market with excess capacity and, consequently, declining prices.

Recently, an independent review of inappropriate discounts given to certain customers of our Fixed division was completed. For further information, refer to 'Operating results – Segmental Results of Operations – Fixed division – Discounts investigation' as set out in the 2004 Form 20-F, which is incorporated by reference into this Prospectus.

#### *What we sell*

The Fixed division generates revenues primarily from retail and wholesale access services on the Dutch fixed network, local, national and international telephony as well as Internet services for both the Dutch residential and business markets. Our Fixed division also generates revenues from providing integrated wholesale transmission services. Several tariffs of both retail and wholesale services are subject to regulatory approval by OPTA, the regulatory body for the telecommunication industry in the Netherlands.

Our products and services can be grouped in products and services relating to access, traffic, digital TV, wholesale services and business related solutions.

#### *Access*

##### *Voice Telephony*

KPN offers fixed-line telephony access services through analog (PSTN) and digital lines (ISDN). Each PSTN line provides a single telecommunication channel, whereas ISDN access lines offer 2, 15, 20 or 30 channels (depending on the type of ISDN connection). Using ISDN, a single line can be used for a number of purposes at the same time, including voice, data, Internet and facsimile transmission.

The revenues from these access services consist principally of subscription fees charged bi-monthly to customers. Total net sales from connections, for which we charge a one-off connection fee and subscriptions, depend on the number of new connections and customer lines, the percentage of 'do-it-yourself' packages (which have lower connection fees), the mix of the customer base (fees for digital lines are higher than for analog lines) and fees charged for our services.

In the traditional voice access market we are the largest provider, but experience continued competitive pressure. In the consumer market there is competition from mobile-only solutions and cable telephony. As of 31st December, 2004, about 12% of Dutch households have only a mobile phone (compared to 8% as of 31st December, 2003). About 4% of the households use analog cable connections for telephony. In all, the number of PSTN and ISDN lines continued to decline during 2004. As of 31st December, 2004, we supplied approximately 7.43 million PSTN and ISDN connections to customers (compared to 7.68 million as of 31st December, 2003).

We are also focusing on voice services through new technologies such as VoIP and VoDSL, in order to offer our customers enriched forms of communication rather than just traditional voice. Voice over IP is a voice application on an IP-network, either the public Internet or a closed or private IP-data network. A bundled offer of a broadband IP-connection with IP-applications like VoIP, Internet and videocalling has recently been launched, see "Recent Developments" above. Voice over DSL is a voice application on an ATM-DSL-connection in the first mile, which is then transferred into the regular PSTN-network for further transport.

We believe that our home market is one of the most competitive telecommunication markets in Europe, primarily due to the early liberalization of the telecommunication sector in the Netherlands. Carrier (Pre)Select operators have a significant presence in the Netherlands. Our major competitors in this field are Tele2 and Pretium, which target the residential and small and medium-sized enterprises markets. During 2004, cable operators like UPC and Multikabel introduced VoIP. We also compete with VoDSL competitors such as Colt and Versatel. Several fixed network operators (e.g., Versatel, BT, bbned and MCI) are also active in the Netherlands with their own networks. They focus mainly on business customers and offer a wide range of services, such as access, voice, data and bandwidth services.

### *Internet*

As part of our strategy to increase our market share in the broadband Internet market, we offer a range of DSL access variants and supplementary services for the consumer and small business markets. This strategy is important to us, because we expect that in the near future DSL lines will be used not only for Internet, but also for voice and TV-services. Therefore we are actively migrating Internet dial-in customers to broadband access. We offer customers broadband access through 'Direct ADSL', Planet Media Group and XS4ALL. Planet Media Group consists of two ISPs: Het Net and Planet Internet.

The total number of KPN ADSL connections increased by 85% from 746,000 at the end of 2003 to 1,381,000 at the end of 2004, representing 44% of the total consumer broadband market in the Netherlands including broadband offered by cable operators (31st December, 2003: 39%).

The number of broadband subscribers of our three ISPs and Direct ADSL increased from 468,000 as of 31st December, 2003 to 936,000 as of 31st December, 2004. This increase is a result of intensive acquisition programs and the introduction of Direct ADSL (which offers a direct ADSL connection without using an ISP) and 'ADSL Tijdsurfen' (a combination of a low monthly subscription fee and a charge per minute of use).

Subscribers using ADSL by KPN receive additional savings on premium services and have access to specific broadband services. Subscriptions at (introductory) discounts are offered, in order to gain market share. In February 2004, we increased the ADSL transmission rate. Competition in the ISP market remains strong. Our main competitors in the ISP market are Chello, Tiscali, Wanadoo, Zonnet and @home. Our ADSL coverage in the Netherlands increased from 97% at the end of 2003 to 99% at the end of 2004.

We are building on our existing customer base and on the strength of our brand names in the Netherlands. We charge our ADSL Internet customers a monthly subscription fee that comprises two parts: the ISP charges the customer the fee for Internet use while the use of the infrastructure is charged directly to the customer by our Broadband business unit, the supplier of the infrastructure. Additional services are charged per service through the ISP. All customers of our ISPs are paying Internet subscribers.

Apart from broadband ADSL services, we offer smallband Internet dial-up services: Internet dial-in both to customers of our own ISPs as well as to customers of third party ISPs (via so-called 0676 numbers). As a result of the migration of dial-in customers to broadband offerings, our Internet dial-up access minutes are rapidly decreasing. In 2004, our ISP Het Net responded by introducing 'ADSL Tijdsurfen', broadband Internet access at a low monthly subscription fee and a charge per minute of use. As of 31st December, 2004, we still had in total 691,000 dial-in subscribers in the Netherlands (2003: 1,072,000). Our own ISPs charge our dial-in Internet customers a fixed fee per month and a charge per minute of use. Our total market share for both smallband and broadband of active Internet users in the Netherlands increased to 30% (including cable) as of the end of December 2004 (December 2003: 29%).

### *Tariffs*

The level of monthly subscription fees is higher for ISDN access lines than for standard analog access lines. Our tariffs for fixed-line voice telephony services are subject to regulatory approval. Under the regulatory framework that applies to the Dutch telecommunication sector, these tariffs will continue to be subject to regulation for as long as the Dutch regulator designates us as having significant market power. On 1st July, 2004, we increased our subscription fees for PSTN lines by 2.1% and for ISDN lines by 1.4%. Given

technological developments and competition, which results in pressure on ADSL subscription fees, we are offering higher capacity while maintaining our tariffs. Tariffs for dial-in subscriptions also remained unchanged in 2004.

## **Traffic**

Voice traffic – retail

KPN offers:

- local telephony traffic: call minutes from calls within a call area or to an adjacent area;
- national long-distance traffic: call minutes from calls between customers in different local call areas in the Netherlands;
- fixed-to-mobile traffic: call minutes from one of our fixed lines to a mobile telephone; and
- outbound international traffic: call minutes from international calls by direct dialing.

As a result of the liberalization of the telecommunication market, telephone users are free to choose a provider that handles their calls by either Carrier PreSelect or by Carrier Select. New services are generally rendered at lower tariffs.

In order to maintain our market share, we increasingly focus on providing more value to our voice customers through voice bundle discount packages, available to the consumer market (BelPlus packages) as well as the business market (BelZakelijk packages). In addition, we have stepped up our direct marketing efforts to regain and retain voice customers. Since its introduction in the second quarter of 2003, approximately 1.4 million consumers have opted for BelPlus packages, representing a penetration rate of approximately 26% of our total residential customer base. In total, approximately 140,000 business market customers<sup>1)</sup> subscribed for BelZakelijk, representing approximately 17% of total business sites and approximately 29% market penetration in the primary target group of small and medium-sized companies. Through these activities in the traditional voice market, we were able to slow down the quarter-on-quarter decrease of our market share. Our market share, at the end of 2004, was between 70%-75% (local), approximately 60% (national), approximately 60% (fixed-to-mobile) and approximately 45% (international).<sup>2)</sup>

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(1) Based on order intake.

(2) Excluding international traffic from telephone cards.

## *Tariffs*

Our tariffs for fixed-line voice telephony services are subject to regulatory approval, except for international voice services. Under the regulatory framework applicable to the Dutch telecommunication sector, these tariffs will continue to be subject to regulation for as long as the Dutch regulator designates us as having significant market power.

Since 1999, tariffs for our public fixed-line voice telephony services have been subject to a price-cap regime. In 2001, the Dutch regulator ordered us to increase the price difference between our wholesale and retail prices. This led to a new tariff structure for local traffic, whereby the call-setup charge was reduced and the price per minute increased. On 1st July, 2003, we raised both the call-setup charge and traffic charges by 3.5%.

On 1st January, 2004 mobile terminating rates were reduced by approximately 20% following regulatory intervention. As of 1st December, 2004, the fixed-to-mobile tariffs were reduced by approximately 13.5%, which resulted in lower revenues of our Fixed division. The reduced Mobile Terminating Access (MTA) tariffs had no impact on the operating result of our Fixed division.

### *Internet traffic*

We offer Internet dial-up minutes to our own and other ISPs. Due to the increasing penetration of broadband and the migration of dial-up customers to ADSL, our Internet dial-up customers and minutes rapidly decreased. In 2004, our ISP Het Net responded by introducing 'ADSL Tijdsurfen'; broadband Internet access at a low monthly subscription fee and a charge per minute of use.

### *Digital TV*

We introduced wireless digital broadcast TV and radio as from 18th October, 2004, as part of our 'Triple Play' strategy to become an all-round service provider of voice, broadband Internet and broadcasting services. We are one of the first telecom operators to venture into the TV market. At the end of 2004, 'Digital TV by KPN' could be received throughout the main metropolitan areas in which 2.7 million (or 45%) of the Dutch households reside. We expect to expand that coverage in the future.

As of 31st December, 2004, we had more than 25,000 KPN TV subscribers, of which the majority chose packages in combination with Voice and ADSL.

### **Wholesale services**

We provide national as well as international wholesale services.

#### *National services*

The national services we offer can be divided in national wholesale and national local-loop services. Within the national wholesale services we offer a comprehensive range of network access services that give other telecommunication companies access to our fixed telephony network, including:

- terminating services: we offer terminating access to end users connected to our network, allowing customers from other operators to reach our customers;
- voice-originating services: we offer Carrier (Pre)Select operators access to calls originating on our network and we offer customers of our network interconnection with so-called premium numbers (with prefixes of 0800 or 0900), pagers and virtual private networks;
- Internet-originating services: we offer ISPs the possibility to bill their customers directly for their Internet traffic volume usage through the use of special dial-up numbers (so-called 0676 numbers); and
- transit services: we offer other telecommunication operators the routing of incoming and outgoing national and international calls between other operators' networks through our network.

Since the introduction of local Carrier (Pre)Select in August 2002, traffic volumes increased in the originating, transit and terminating voice services categories through 2003. In 2004 this growth was limited. The effect of the traffic increase was partly offset by tariff reductions. Different from competition, most of our national wholesale services and local-loop services are regulated due to our significant market power in these markets. Main competitors in this market are Versatel, MCI, BT and Enertel. In the national transit market, competition with direct interconnection increased. Orange is a competitor on the transit market. As a result of the substitution from Internet dial-up access to broadband Internet access services, the volume of Internet-originating services declined substantially during 2004, continuing the trend of 2003.

Within the national local-loop services, we offer access services to 'the last mile' of our network. These services include:

- Main Distribution Frame (MDF) access: this service physically connects networks of other operators to the local loop network of KPN. With this service we offer operators direct access to homes and offices of their customers;

- MDF co-location: we offer other operators the possibility to install their equipment in or alongside KPN buildings, towers and masts to connect their systems and networks to our network. This service offers operators direct access to the so-called local loop;
- bitstream access: we offer operators and ISPs the possibility to develop individual DSL-based services; and
- Interconnect Leased Lines services: we offer a unique connection between an end-user location and the transmission network of an operator; the lines and the related infrastructure are monitored continuously.

Due to the developments in the broadband market, there is an increase in bitstream access offers. The decrease in PSTN and ISDN connections, however, caused a decline of MDF access offers. MDF co-location grew during 2004, due to an increase in sites used by ISPs and an increase in our offered DSL services. The increase in volume was partly offset by lower tariffs.

In the first quarter of 2005, we introduced the Wholesale ADSL service. This service is an added value service on top of local loop unbundling, which enables ISPs and other operators to add ISP-specific value without the need to invest in building an ADSL network. We have signed our first wholesale ADSL agreement with a Dutch operator and several other operators are interested in this service. The new Wholesale portfolio is expected to enable us to expand our market share in the Wholesale market for Consumer services.

#### *International services*

The international wholesale services we offer can be divided into voice services and data services. Data services are primarily handled by Business Solutions, for example via KPN EuroRings. The international voice services transport international voice traffic originating outside and inside the Netherlands to any place in the world and includes:

- International Wholesale Services in different quality classes and International Direct Dialing: services for calls originating or terminating in the Netherlands;
- transit: we offer transit through our network of international calls from one foreign network to another foreign network (voice hubbing);
- wholesale freephone services: transport of international toll free numbers;
- solutions for mobile operators: transit services for voice traffic, SMS, MMS and UMTS; and
- solutions for ISPs: voice access services connecting VoIP traffic to switched networks internationally.

Our main competitors in this area are the major telecommunication companies, including AT&T, MCI, Deutsche Telekom and France Télécom.

#### *Tariffs*

The national wholesale tariffs (except for the tariffs for transit services) are subject to regulatory approval. We believe our wholesale tariffs for terminating services are among the lowest in Europe. Our wholesale tariffs for originating services approximate the average tariffs of our competitors. Our tariffs for transit, originating and terminating services are composed of a call set-up fee and a charge per minute. For Local Loop Services we charge a one-off connection and a subscription fee. The ongoing liberalization and increased international competition as a result of European regulation puts continuing pressure on international tariffs. In 2004, the tariffs for regulated national wholesale services remained unchanged compared to 2003, except for tariffs for National Local Loop Services, which declined on an average by 10%.

## Data services

We offer a range of telecommunication solutions based on data services for corporate clients in the Dutch market. We believe we are the leading provider of data connectivity services in the Dutch corporate market in terms of revenues. In addition, we offer data services in Western Europe through our KPN EuroRings network.

The telecommunication solutions based on data/IP services we offer include:

- transmission services: we offer a range of national and international transmission services. We also offer our clients leased (and managed) private lines that provide a secure direct link for voice and/or data between their sites. In combination with our value-added services, corporate clients can build their own networks;
- network services: within our network services, we offer transmission services based on both traditional analogue and digital leased lines as well as based on new technologies like Internet services and IP-VPN services. Internet services consist of xDSL services, which are targeted to corporate clients and ISPs. Ecapacity IP-VPN is an example of an IP-VPN service that offers a Virtual Private Network (VPN) based on the Internet Protocol with access based on DSL or leased lines. All members of a VPN can communicate on an IP base;
- integrated voice and data communication solutions, including VoIP and IP communications: we offer a range of integrated voice and data communicating solutions for the Dutch business market. We design, deliver and integrate voice and data communicating solutions, both based on our traditional products and services relating to voice communicating as well as on new products such as Voice over IP (VoIP) and IP-communications. The solutions include network solutions and managed firewalls. We also offer solutions for special events, call centers and trading;
- outsourcing solutions: we provide outsourcing solutions for all aspects of telecom management and infrastructure of companies. We offer the know-how of our consultants, project and implementation managers and specialists in management or technology;
- international connectivity services: through our KPN EuroRings network we provide international connectivity services, using our own fiber optic networks in the Netherlands, Germany, Belgium and the United Kingdom and indefeasible rights of use or lease rights in several regions and cities of Europe (Northern France, Lyon, Luxembourg, Vienna, Milan, Barcelona, Madrid, Dublin, Copenhagen, Helsinki, Stockholm, Oslo, Zurich, Geneva, Prague, Bratislava, Budapest and Warsaw). We also conduct transit activities through our submarine cable. Moreover, we offer worldwide connectivity services via resale agreements for areas that cannot be covered by the current KPN EuroRings portfolio; and
- all-inclusive packages: we also offer all-inclusive business solutions packages to corporate clients based on a one-stop shopping concept. In these all-inclusive packages we offer component parts (based on the services described above) as well as consulting services on implementation of business solutions and software applications, e-business services and housing and hosting services (such as online remote backup, storage services).

We have many competitors in the data transmission services market, such as BT Ignite, ICM, Colt, Enertel and Versatel. 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.

## *Tariffs*

Pricing for data transmission and connectivity services is based on monthly subscription fees that reflect the amount of capacity or functionality provided, and for leased lines also the communication distance. For a limited range of services the pricing is provided in the form of traffic fees, some of which are flat fees. Customers are typically billed on a monthly basis for capacity made available to them. We offer various levels of quality and functionality in our services, which are reflected in our rates. Almost the entire leased

line business is regulated. Service fees are therefore based on prescribed cost-based calculations as stipulated by the Dutch telecommunication regulator (OPTA). For other services, including value-added networks, we compete on the basis of service quality. The market for broadband services is very competitive. The increasing migration of customers to higher bandwidth services, larger than 2MB, has resulted in lower prices for leased lines and frame relay connections. The international connectivity services and the national broadband business are negatively affected by overcapacity, which has contributed to declining prices since 2002.

### **Customer relationship management**

Through SNT we provide Customer Relationship Management (CRM) concepts such as call center services and data mining. Management information is distilled from customer contacts using data mining technologies; clients can use management information to further shape their marketing strategy and build up lasting relationships with customers. SNT provides services to millions of consumers annually in the Netherlands, Belgium, Germany, France and Scandinavia through wholly owned subsidiaries or partnerships. SNT consists of three companies: SNT Netherlands, SNT Belgium and SNT Germany. It also has entered into partnerships in France and Scandinavia. Within SNT Netherlands, the market research bureau Interview-NSS operates under its own name.

On 10th September, 2004, SNT and we announced that we intended to make a recommended cash offer of EUR 13.50 per share for the outstanding shares of SNT. Following the public offering for the SNT shares and the conversion of a special share we already owned, our share in SNT at 31st December, 2004 was 93.7%. A legal merger between KPN, KPN Telecommerce and SNT was finalised in May 2005 and, as a result, SNT has ceased to exist and its shares are no longer listed, see “Recent Developments” above. The offer stemmed from our intention to restructure SNT’s CRM activities, in particular for high value contact services and aims to significantly reduce costs. The restructuring is a key component of KPN’s drive towards improved customer satisfaction.

### **Our brands and marketing**

Our products and services are sold under various brands. The KPN brand is our primary brand used for our fixed telephony activities in the consumer market. Internet and broadband services are marketed under our Planet Internet, Het Net, XS4ALL (three ISPs), and Primafoon (retail chain) brands. For business customers, KPN is the primary brand for both fixed telephony, internet/broadband and data network services. KPN is also 100% owner of Infonet Netherlands, which offers worldwide data networking services as a reseller of Infonet Services Corp.

In 2004, KPN’s marketing was refocused from a product to a market orientation for both consumer and business customers. For the consumer market the main objectives are to align the KPN products, market concepts and brands, to increase the overall customer satisfaction, and to update marketing concepts and product portfolio.

Marketing has achieved its main goals by integrating all core market activities on Voice, Internet and TV. This has contributed to the developments reported above: protection of market share in the voice market, continued strong growth of ADSL sales and the successful introduction of KPN TV.

The most important development in marketing to the consumer is the commercial packaging of our services. We have introduced several voice, xDSL and mobile packages in 2004 such as the ‘Triple Play’ package (October 2004). This will be followed by more bundled marketing propositions in 2005, driven by further (Vo)IP developments and Fixed to Mobile integration. Simultaneously, the market requires a more individual approach, which is supported by a further enhancement of CRM tools and more regional/personal marketing actions.

For business customers, our major goal in 2004 was to offer our customers a range of services and easy-to-use solutions based on their business needs rather than a traditional technical product promotion. Our aim has been to improve our customer’s businesses by working together with them as a partner. Innovation has been a driving factor, as well as understanding the social and business trends, which can impact our

customers. Continuous improvement of our customer service, and overall customer satisfaction were also a priority in 2004. We were successful in increasing our sales of both broadband (Office DSL) and IP-VPN network solutions, offered every school in the Netherlands free Internet for a three year period ('scholenproject'), and also continued in an increased effort to sell our VoIP packages to our large business customers.

### **Distribution and sales**

We offer our products and services through a variety of sales and distribution channels. Residential customers are serviced by KPN.com, our retail stores (Primafoon) and our customer service telephone teams. Our own channels handle most of our customer contacts. These channels are traditionally service oriented but with growing and exploiting cross and upsell opportunities. Telemarketing is used to address targeted customer segments with tailored propositions.

In 2004, we expanded our distribution power by cooperating with external Telecom retailers (e.g., T for Telecom) for ADSL-sales, Television-equipment shops (e.g., Mediamarkt, Modern, It's) for the sales of KPN TV and online-retailers (e.g., Breedbandshop.nl) for both. Our mix of retail, online and telephone channels give our customers access to our offers and to contact us when and from where they want. Distribution channels are used independently from each other and are complementary (e.g., Orientation online, buy in the shop, support via telephone). Our focus in consumer market distribution shifted early 2004 from a service orientation to sales and customer acquisition. Customer retention is added to the portfolio as well.

Business clients are serviced mainly through KPN Sales stores (KPN Business Centers), KPN.com and customer service telephone teams supported by external distribution partners. Telemarketing and telesales teams are used for the SME market where the large and corporate accounts have direct contact via account management teams. Dedicated consultants offer integrated all-inclusive packages. Wholesale services are offered with dedicated sales teams.

### **How we are organised**

Our Fixed division comprises Fixed Networks and Business Solutions. The main business units and their activities are explained in more detail below.

#### **Fixed Telephony**

The business unit Fixed Telephony provides access services to business and residential customers through analog and digital lines. We offer local, national long-distance and international call services as well as calls to mobile and Internet service providers (dial up access). Our network connects approximately 85% of the households in the Netherlands.

#### **Carrier Services**

Carrier Services provides interconnection and other wholesale carrier services to our network and to the networks of third party telecommunication companies. The three principal activities of Carrier Services are national wholesale services, international wholesale services and national local loop services. Carrier Services provides Main Distribution Frame (MDF) access services and MDF co-location. MDF access services are also provided by Carrier Services internally to the business unit Broadband, which sells ADSL products. MDF co-location is offered to competing telecommunication operators, who may request a connection through our main distribution frame to their customers.

#### **Other units within Fixed Networks**

Other units within Fixed Networks include our Broadband business unit (ADSL provider for consumer and small business markets), SNT (our Customer Relationship Management company), the ISPs Planet Media Group and XS4ALL, KPN TV (provider for digital TV broadcasting, as of January 2005), our Fixed Network Operator (customer equipment installation and service provider), and the distribution channel KPN.com.

## **Business Solutions**

### **Connectivity**

Our business unit Connectivity comprises the business lines Transmission Services and Network Services. Transmission Services provides a range of transmission services, leased lines, private lines and value added network services as well as broadcast services to Dutch television companies. Network Services provides IP-VPN services, Layer-2 services (like E-VPN, ATM and Frame Relay) and Internet Access Services.

### **Integrated & Managed Solutions (I&MS)**

Our business unit I&MS offers all-inclusive business solutions packages to corporate clients based on a one-stop shopping concept. In addition, I&MS offers e-business services, housing and hosting services. Part of Managed Application Services was sold during 2004.

### **KPN EnterCom**

KPN EnterCom provides a range of business solutions for the Dutch business market and is divided in two separate business lines, EnterCom Solutions and Telecom Management. EnterCom Solutions designs, delivers, integrates, and services voice and data communication solutions (such as PBX installations) and offers communication solutions for special events, call centers and dealing and trading. Telecom Management provides outsourcing solutions for all or part of the telecom management and infrastructure of companies.

#### **(b) Mobile division**

We are active as a mobile telecommunication provider in Germany, the Netherlands and Belgium serving 17.2 million customers as of 31st December, 2004. We provide mobile telecommunication services ranging from standard voice and value-added services (call waiting, call forwarding, voicemail and message services like SMS and MMS) to advanced data services (i-mode, video telephony and mobile broadband Internet). We expect person-to-person communication services (voice, SMS, e-mail) to remain the main source of revenue for mobile operators in the coming years, while advanced data services will become increasingly important. In addition, the increasing number of mobile-only users reflects a trend of further usage of mobile networks at the expense of fixed networks.

Pursuant to license agreements with NTT DoCoMo, we offer i-mode services in all our three markets since 2002. i-mode services consist of communication (including e-mail service), information, entertainment and transaction services via so-called content sites. Our major i-mode content partners include CNN, Disney, Dow Jones and Sony. We continuously enhance our i-mode services and handset portfolio. As at 31st December, 2004, we closely cooperate with 13 other operators in the i-mode alliance, which includes NTT DoCoMo, Bouygues Télécom, Telefónica Moviles and Cosmote.

We introduced UMTS PC cards in Germany in June 2004 and in the Netherlands in July 2004 and a few months later we introduced UMTS-enabled handsets in both markets. Broadband enhances mobile data services (e.g., i-mode services and mobile Internet access) by adding video capabilities and increasing transmission speeds. We are continuously expanding the coverage of the broadband networks and the handset portfolio. We expect that the introduction of broadband services will accelerate the use of advanced data services in the coming years.

The strategic goals of our Mobile network operators are summarized below:

- for our German mobile network operator E-Plus the objective is to establish a growing profitable business in the German market;
- for our Dutch mobile network operator KPN Mobile The Netherlands the objective is to remain the undisputed market leader; and

- for our Belgian mobile network operator BASE the objective is to establish a growing profitable business in the Belgian mobile market.

For information on how we calculate customer data, see 'Presentation of Financial and Other Information' as set out in the 2004 Form 20-F, which is incorporated by reference into this Prospectus.

## **Germany**

In February 2000, we acquired a 77.49% interest in E-Plus. The remaining 22.51% was acquired in March 2002 and, consequently, we obtained full control over E-Plus. E-Plus' customer base increased during 2004 reflecting the growth of the German mobile market – with the overall market penetration increasing from 79% to 87%. We expanded our market share to 13.3% (2003: 12.7%). With more than 9.5 million customers at 31st December, 2004, we continue to strengthen our position as the number three operator in the German market.

Our growth strategy is focused on growth in customer base, revenues and market share on the one hand and profitability on the other hand. We succeeded in 2004 in attracting over 1.3 million new customers and to increase the share of postpaid customers. The number of postpaid customers as of 31st December, 2004 amounted to 4.7 million, representing a 50% share of our total customer base (2003: 47%). The number of prepaid customers at the end of 2004 was 4.8 million. Our 2.5G-enabled network covered 99% of the German population at 31st December, 2004 (2003: 99%). The indoor coverage at the end of the year was 79%, a clear improvement over 74% at the end of 2003.

## **Products and services**

We offer a number of bundle packages such as Time & More for the consumer market and Professional (S, M, XL) for the business market. We also offer postpaid propositions under the 'Privat' tariff with three different packages and prepaid propositions under Free & Easy in two different packages. Since 1st August, 2005, we have offered a flat fee for mobile phone use in Germany under the brand BASE. With BASE, mobile phone users pay a flat fee of €25 per month, which covers all calls to a German landline, all calls and text messages to other BASE and E-Plus customers as well as calls to the mailbox.

In addition to standard mobile telecommunication services, we offer a wide range of value-added voice and data services under the brand name E-Plus. On 24th August, 2005, E-Plus, our German mobile unit agreed a strategic co-operation with music and entertainment channel VIVA, an MTV Networks broadcaster in Germany. Starting in the autumn of 2005, VIVA will market tailor-made mobile services for its core youth audience under its own brand.

In 2002, E-Plus was the first operator to introduce i-mode services in Europe. As of 31st December, 2004, it served 1.1 million i-mode customers. In April 2004, we launched Wi-Fi services based on a service provider model. In May 2005, E-Plus launched the first German mobile discount provider, simyo. No-frills mobile telephony is offered at two transparent discount rates, a €0.19 per-minute charge for all calls within Germany and €0.14 for sending a text message. In June 2004, we took the first step in delivering UMTS services through UMTS PC cards. The first UMTS-enabled handsets were launched in August. UMTS services were available in 453 German cities at 31st December, 2004. The network and the handset portfolio are in the process of being expanded.

As of 31st December, 2004, we offered our customers the possibility to use mobile telecommunication services outside Germany in 160 countries via international roaming agreements.

## **Tariffs**

We offer a variety of tariff structures for postpaid and prepaid customers. In all tariff plans, we have different tariffs per minute – depending on the time of the day and weekday – to stimulate calls outside peak hours. Under the postpaid offerings, we offer bundled minutes at discounted rates per minute. For postpaid and prepaid offers, a special tariff option for calls to fixed numbers exists. These offers aim at capturing a larger share of the total voice market.

We structured i-mode pricing in a fee per data volume used or in a flat fee for a certain threshold; exceeding this threshold will result in the customer being charged by data volume – in four packages (S, M, L and XL). For UMTS PC Cards, our customers can choose between time and data volume packages.

The German regulator RegTP ordered the German mobile network operators to reduce their MTA tariffs effective 15th December, 2004, supplemented by an additional reduction as from 15th December, 2005. We expect this will have a substantial, negative effect on E-Plus' net sales and operating result.

## **Competition**

Four mobile network operators, all of whom hold UMTS licenses, are currently competing in the German mobile telecommunication market: T-Mobile, Vodafone, E-Plus and O2. The two largest mobile telecommunication providers – T-Mobile and Vodafone – together hold an estimated market share of 76%. In the past years, E-Plus and O2 have been successful in growing their market shares.

In addition, a number of independent service providers in Germany package and sell products and services of 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, the service providers sell to both business and private customers. The main service providers in Germany are Debitel, Talkline, Victor Vox and MobilCom. Service provider customers form approximately 30% of our customer base.

In co-operation with O2, Tchibo recently introduced new distribution models to the German market, which are referred to as Mobile Virtual Network Operators ('MVNOs'). Typically, MVNOs package and sell their own product under their own brand name, using another operator's network. Although Tchibo entered the market under the label 'MVNO' the nature of the underlying model is solely such of a co-branded agent for the network operator's services.

## **Brand strategy**

In 2004, E-Plus positions itself under the core idea 'Erfrischend anders' ('Refreshingly different') as a competitive challenger in the German mobile market: we are a mobile network operator that does things differently than our competitors if doing so is to the advantage of our customers. Eventually, we want to be recognized as the best mobile network operator in Germany.

The communicative idea is based on 'Ein + verbindet', which combines in a smart way the emotional approach of E-Plus connecting people while delivering the right products to connect people. We believe our marketing strategy has been successful with high advertising recall and slogan recognition compared to competitors and increases in brand awareness and buying intention.

During 2005, we have introduced the "simyo" and the "BASE" brands (see "Recent Developments" above).

## **Distribution and sales**

We offer our products and services through our own chain of 141 shops and the E-Plus Internet website. Apart from these channels, we offer our services through resellers and service providers that may repackage our offers, tailoring them to their customers' needs. Resellers include Debitel, MobilCom, Talkline and Alphatel. For the business market, we also use these sales channels as well as a direct sales force.

## **The Netherlands**

In the Netherlands, we are the largest mobile telecommunication provider with 6.1 million customers, representing an estimated 40% share of the market as of 31st December, 2004. The opening of the mobile telecommunication market to competitors in 1995, the introduction of prepaid connections in 1997, the subsequent launch of three competitive new GSM networks between September 1998 and February 1999 and reduced tariffs per minute led to a significant market penetration. The mobile penetration rate in the Netherlands increased from 80% at the end of 2003 to 93% in December 2004. As of 31st December, 2004,

the number of postpaid customers was 2.2 million (36% of our total customer base), while we served 3.9 million prepaid customers. The Dutch market is very competitive. During 2004, we revitalized our commercial strategy aimed at further strengthening our market leadership position.

We believe our leading role in both the business and residential segments of the Dutch mobile telecommunication market is the result of our well-known KPN and Hi brands, the quality of our network, our extensive distribution network, our commitment to customer care and our innovative products and services.

### **Products and services**

We offer a range of standard and value-added mobile voice and data services. In this market, we apply a multi-brand strategy to appeal to different target markets. The Hi brand focuses on the young consumer and heavy SMS users, whereas the KPN brand is dedicated to other segments in both the consumer and business market. The Telfort brand focuses on the cost conscious consumer segment of the market and will be retained as part of KPN's brand portfolio.

The growing demand for mobile data services – particularly those based on the latest Internet technologies – is expected to lead to increased usage of our mobile network. We introduced i-mode services in 2002. As of 31st December, 2004, we served 0.7 million i-mode customers. Multimedia Message Services (MMS) were added in 2003. In addition, we offer data and fax transmission services, VPNs for business customers as well as multimedia services and Wireless LAN as part of our mobile data services portfolio. Our product 'Internet Everywhere' (GPRS) is being offered in combination with Wi-Fi access. In July 2004, we started rendering UMTS services via UMTS PC cards; the first UMTS-enabled handsets were launched in October. UMTS services were, at 31st December, 2004, available to 40% of the Dutch population. The network and the handset portfolio are being expanded continuously.

As of 31st December, 2004, we offered our customers the possibility to use mobile telecommunication services outside the Netherlands in 192 countries via international roaming agreements.

### **Tariffs**

We render our mobile services as a postpaid or prepaid proposition. The postpaid structure combines a monthly subscription fee and traffic-based pricing for business market customers. Under our postpaid consumer offerings, we offer bundled minutes at discounted rates per minute committing the customer to a minimum quantity of minutes a month. Our prepaid proposition is mainly based on traffic-based pricing. Data services like SMS and MMS are charged on an event basis. Data services – like i-mode and UMTS-services – are based on a traffic bundle or usage in megabytes.

Following regulatory requirements, we reduced our MTA tariffs in January 2004 and again in December 2004. A further reduction of these tariffs will take effect in December 2005. The average retail SMS price declined considerably in 2004 with other retail prices for mobile services changing less dramatically.

### **Competition**

Our mobile operator competitors in the Dutch market are Vodafone, T-Mobile, Orange and Telfort (although, as discussed under "Recent Developments" above, we have reached an agreement in principle to acquire Telfort). The last two years, a growing number of MVNOs and service providers entered the Dutch market. Most of these resellers offer private-labeled mobile services as part of their portfolio and sometimes they also directly communicate with their customers. The most important service providers are Debitel, Tele2, Albert Heijn and IMC. A part of our net sales is generated through such MVNOs and service providers.

We have been designated as an operator with significant market power for mobile public telephone networks and services. As a result, we are required to meet reasonable requests for special access and to offer interconnection and special access in a non-discriminatory way.

## **Brand strategy**

KPN offers customers the possibility to choose between different propositions under separate brands KPN, Hi and Telfort, which are tailored towards the needs of different customer segments. During the sales process special attention is given to explaining the relevance of services for each individual customer.

With the KPN brand we are targeting both the consumer and business market with a premium value brand. KPN is offering the highest quality mobile services and – according to quality perception research – the best network.

With Hi we are successfully targeting the more cost conscious youth segment, which is an important growth-market, especially for data services. i-mode users are continuously encouraged to experiment with new services, also via the hardware upgrade program for handsets with increased capabilities.

With Telfort we are focusing on the cost conscious consumer segment of the market.

In 2004, our focus resulted in the following:

- i-mode conversion (postpaid) reached satisfying levels;
- the establishment of a dedicated helpdesk for our top customers. Here, we advise customers on the appropriate propositions depending on their needs and usage pattern and inform them about additional services; and
- highly competitive SMS prices in addition to broader distribution contributed to the growth of our Hi brand.

## **Distribution and sales**

In the Netherlands, we offer our services via third-party channels like T for Telecom and the Phonehouse, our 88 Primafoon shops and 17 Business Centers (which form part of our Other activities) and direct sales force. Non-store channels are gaining in popularity and sales volumes, both in the market (Internet) and within our sales channel mix (SNT, kpn.com, hi.nl). Wholesale services are provided to a few external service providers. Following the acquisition of Telfort we will also offer Telfort propositions via Telfort shops (see “Recent Developments” above).

## **Belgium**

The Belgian mobile telecommunication market offers growth opportunities for BASE, our mobile operator, which started commercial operations in September 1999 under the KPN Orange name. After buying out our joint venture partner Orange in 2002, we re-branded the company and launched the BASE brand. We are the number three mobile telecommunication provider, serving over 1.6 million customers as of 31st December, 2004 (2003: 1.3 million). This represents an estimated market share of over 17% (2003: 15%). Through our policy of combining distinctive and simple offers with tailor-made propositions for specific market niches, we accelerated the growth in customer base, revenues and market share since the fourth quarter of 2003.

We used number portability to convince customers to change provider. Number portability allows customers to keep their original mobile telephone number when switching from one mobile network to another. Our network covered outdoor more than 99% of the Belgian population at 31st December, 2004. Indoor coverage improved from 91% to 96% during 2004.

## **Products and services**

We offer a portfolio of voice and data products and services directed at ease of use and supported by a clear tariff structure. We also offer product and services focused on specific market segments. Examples thereof are the *Ay Yildiz* proposition (for the Turkish community) and a youth-oriented offer in co-operation with TV channel TMF.

## **Tariffs**

BASE offers prepaid and postpaid propositions. The simplicity of the tariff structures and the possibility to opt for flat rates (EUR 7, EUR 14 or EUR 28) is characteristic for BASE's offers. Postpaid propositions do not contain a fixed monthly subscription fee. Instead, customers buy a package with bundled minutes. BASE is the only operator in the Belgian market billing on a per-second basis. i-mode customers pay fixed monthly fees excluding subscription fees for specific content sites.

## **Competition**

The other mobile operators in Belgium are Proximus and Mobistar. The shareholders of Proximus are Vodafone (25%) and Belgacom (75%). Orange owns a 50.37% equity interest in Mobistar.

## **Brand strategy**

BASE positions itself as an integrated network operator that distinguishes itself from competition. 'Doing things differently' is the driving force for us. That is why we are and have been in the process of re-engineering our strategy, customer focus, organization, management, cost and services.

## **Distribution and sales**

Our products and services are available at well-known nation-wide retail chains like BelCompany, The Phone House, Expert, Carrefour, Mediamarkt and Cora as well as at our BASE shops and web channels. As at 31st December, 2004, we operated 44 BASE shops.

### **(c) Other activities**

During the year ended 31st December, 2004, our Other activities included our international participations (Xantic, PanTel, EuroWeb and Infonet), KPN Retail (Primafoon stores and Business Centers), KPN Sales, Corporate Center (support functions) and KPN Services. Our Corporate Center, KPN Sales and KPN Services mainly provide group internal services.

## **Xantic**

We hold a 65% interest in Xantic (the other 35% being held by Telstra Australia). Xantic is a leading satellite communications provider, delivering high-level information and communication technology and services for the business-to-business environment. Xantic delivers mobile satellite communication services at sea and on land, software and consultancy for the shipping industry, broadband services, broadcast and IP services via satellite transponders and hosting and outsourcing services. Xantic is particularly oriented in maritime business solutions. In December 2003, Xantic sold its 5.3% stake in Inmarsat, an international satellite company. In 2004, KPN sold its stake in Eutelsat, an international satellite company. On 15th August, 2005, we signed a letter of intent with Telstra Austria pursuant to which we intend to sell our interest in Xantic. The sale is expected to close towards the end of 2005 or in early 2006 (see "Recent Developments" above).

## **PanTel**

As at 31st December, 2004, we held a 75.19% interest in PanTel, a wholesale provider in the Central Eastern European region and the leading alternative choice for business customers in Hungary. In Hungary, PanTel offers a complete nationwide package of fixed-line telecommunication services (voice, data, Internet). On 28th February, 2005 we sold our interest in PanTel.

## **EuroWeb International Corp.**

We hold a 43.54% (31st December, 2003: 50.2%) stake in EuroWeb International Corp., which is listed on Nasdaq. EuroWeb provides telecommunication solutions to the Central European corporate market via the Internet. EuroWeb clients include Central European governments, multinationals, insurance companies and various media enterprises. In 2004, EuroWeb acquired Elender Business Communications, one of the leading

ISPs in Hungary, in an acquisition that was partly financed through the issuance of new EuroWeb shares. Our interest in EuroWeb International Corp. fell below 50% partly because of the shares issued by EuroWeb to a third party and partly because of an open market sale of part of our shares in EuroWeb. We deconsolidated our interest in EuroWeb International Corp. in May 2004.

In February 2005, we reached an agreement on the sale of our remaining interest. The sale involves two tranches. It is expected that the sale will be completed not later than 1st May, 2006.

### **Infonet Services Corp.**

At 31st December, 2004, we held a 17.9% stake in Infonet Services Corp., which we were in the process of selling to British Telecom. Infonet is a supplier of international network services that is active in approximately 180 countries and listed on the New York Stock Exchange. Infonet provides international communication solutions for voice and data, electronic mail services and global network services. The transaction was finalized on 25th February, 2005.

### **KPN Retail**

Primafoon shops and Business Centers are retail stores where KPN's products are sold. The shops sell telephones, mobile and fixed communication solutions as well as for example personal computers and fax machines.

### **Research and development**

On 1st January, 2003, the Dutch Organization for Applied Scientific Research (TNO) acquired the research and development activities of KPN, and TNO and KPN entered into a long-term contract with annual purchase commitments.

We intend to benefit from the telecommunication expertise of TNO Telecom in order to support the necessary innovations within KPN. Measures have been taken to safeguard the volumes for mid- and long-term projects, carried out by TNO Telecom. In 2004, we extended the long-term contract with TNO for one year until 31st December, 2008. The total remaining commitments until 31st December, 2008 amount to EUR 64 million, which gets smaller per year.

Our research and development expenditures in 2004 totaled EUR 24 million (2003: EUR 23 million).

### **Intellectual property**

Our portfolio of intellectual property rights as at 31st December, 2004 consisted of approximately 100 registered core trademarks and 370 patent families. We continue to invest in the growth of our intellectual property rights portfolio, among others through our spending on Research and Development. We take the necessary steps to protect these rights and we generate value from these rights where appropriate. KPN owns a number of patents that are essential for the commercial exploitation of telecommunication technology and services. A number of suppliers have entered into license agreements with us on these patents. To protect these rights, we currently rely on a combination of patents, trademarks, service marks, trade secrets, copyrights, database protection, confidentiality agreements with our employees and third parties and protective contractual provisions.

We may be subject to claims alleging that we have infringed upon third party intellectual property rights. Claims of this nature could require us to spend significant amounts of time and money to defend ourselves, regardless of their merit. If any of these claims were to prevail, we could be forced to pay damages, comply with injunctions or halt the provision of our services while we re-engineer them or seek licenses to necessary intellectual property, which might not be available on commercially reasonable terms, or at all.

## **Regulatory developments**

In 2004, regulatory developments were dominated by the New Regulatory Framework (NRF) of the European Union. The implementation of the new regulation means that the national regulators have to analyze the telecommunications markets and decide whether regulation is necessary and which remedies should apply. OPTA has issued a number of very extensive questionnaires requesting all market parties to provide the information and quantitative data necessary to enable OPTA to define and analyze relevant markets in terms of possible positions of market power and competition problems that may have to be addressed by means of appropriate, proportionate measures. OPTA has announced that the decisions in which this will be determined are anticipated in the course of 2005 after a round of national and international consultations. As described under “Recent Developments” above, OPTA announced its draft resolutions regarding fixed line telephony, broadband internet access and line rentals on 1st July, 2005.

The obligations imposed upon KPN under the previous regulatory framework remain applicable (with a maximum period of 24 months) until the new regulatory framework is implemented. As an operator of fixed public telephony networks and fixed public telephony services, mobile public telephony networks and mobile public telephony services and leased lines and being designated as having Significant Market Power (SMP), generally a market share in excess of 25%, we are subject to stringent requirements in the Netherlands. The most important of these are offering end users and other players in the market transparent and non-discriminatory access to our networks and services. Designated operators of fixed public telephony networks, fixed public telephony services and leased lines are also required to offer this access at cost oriented prices. Operators of mobile public telephony networks and mobile public telephony services are only required to charge cost oriented prices for interconnection if they have been designated as having significant market power on the national interconnection market with regard to fixed and mobile public telephone services together.

OPTA may impose a penalty of up to EUR 450,000 or – in the event of violation of certain obligations attached to a SMP designation under the new regime – a penalty of up to 10% of a company’s relevant turnover in the Netherlands.

The new legislation is ‘technology neutral’. In principal, all communication services and networks fall within the scope of the legislation contrary to the old ONP regime of the EU with a bias on fixed voice telephony. This concept of technological neutrality leads to more flexibility for regulators. At the same time, it leads to uncertainty in the market during the transition period. It will be not sooner than the date of publication of the decisions by the regulators that market parties know which regulatory remedies will apply.

The market analysis procedure is as follows. The regulator collects information about the market and determines whether market parties have SMP. This is determined not only by market share but also by other factors like market entry, access to financial markets etcetera. The following step is to assess the necessity of regulatory remedies for parties with SMP. Remedies have to be proportional in relation to the distortion of competition that is present in the market. The national regulators have to co-ordinate their decisions with the European Commission and other regulators according to the new EU rules. The European Commission only has veto power where it concerns the way a national regulator defines the market and not where it concerns the remedies that are imposed by the regulators.

The European Commission has defined 18 markets that at least have to be analyzed by the national regulators. If national regulators want to apply regulatory remedies to other markets than these 18 markets, the European Commission has to agree. The 18 markets are listed below:

### **Retail markets:**

- access to the public telephone network at a fixed location for residential customers;
- access to the public telephone network at a fixed location for non-residential customers;
- publicly available local and/or national telephone services provided at a fixed location for residential
- customers;

- publicly available international telephone services provided at a fixed location for residential customers;
- publicly available local and/or national telephone services provided at a fixed location for non-residential customers;
- publicly available international telephone services provided at a fixed location for non-residential customers;
- leased lines: analog, 64Kb/s and 2Mb/s;

#### **Wholesale markets:**

- call origination in the fixed public telephone network;
- call termination in the fixed public telephone network;
- transit services in the fixed public telephone network;
- wholesale unbundled access (including shared access) to metallic loops and sub-loops for the purpose of providing broadband and voice services;
- wholesale broadband access;
- wholesale terminating segments of leased lines;
- wholesale trunk segments of leased lines;
- access and call origination on public mobile telephone networks;
- voice call termination on individual public mobile networks;
- the wholesale national market for international roaming on public mobile networks; and
- broadcasting transmission services.

All 18 markets are relevant for KPN as KPN is active in all markets, in particular in the Netherlands. Market 18 (broadcasting transmission services) is of importance to KPN in relation to our request for access to cable networks of competitors. The mobile markets 15-17 are of special importance to the mobile activities of KPN in the Netherlands, Germany and Belgium.

The current regulation of fixed voice telephony and leased lines of KPN will apply until the national regulator has decided finally about the market power of KPN and the necessity of remedies for KPN. In respect of the current regulatory situation, the potential scope of regulation is extended to transit (market 10), wholesale broadband access (market 12) and mobile call termination (market 16). The national regulator will have to decide whether regulation of these new markets is necessary. We expect greater clarity in 2005 what impact this potential extension will have on the business of KPN.

#### **Voice over IP (VoIP)**

The regulatory situation for VoIP is unclear. A key question is whether VoIP should be considered as a traditional public voice telephony service with similar legal rights and obligations. In our view, VoIP is one of the many IP services over ADSL that is fiercely competitive and that there is no justification for putting SMP obligations on VoIP or ADSL offered by us.

#### **Television**

We requested access to several cable networks of cable operators in order to deliver television services to subscribers of those networks. These requests are still pending. In the case of UPC we formally complained about the denial of access. OPTA decided not to investigate the complaint further because we did not

describe the television services in detail. We are following up on the OPTA decision and continue to request access to the UPC network.

### **Regulation Fixed telephony and leased lines in the Netherlands**

We are required to charge cost oriented prices for fixed public telephone services, consisting of telephone lines, local telephone calls, national telephone calls, fixed-to-mobile telephone calls, standard telephone directory listings and the directory enquiries services. Determination of whether prices are cost oriented has taken place since 1st July, 1999 through a price ceiling system. Under this system, we had to reduce our prices by at least 5.3% each year, while we were allowed to correct these prices for inflation. This price ceiling system was replaced by a system of safety caps, running from 1st July, 2002, until 1st July, 2006. Under this system, the prices of telephone lines, local telephone calls, national telephone calls and fixed-to-mobile telephone calls are allowed to increase only by the rate of inflation. For the period from 1st July, 2003 through 1st July, 2004, inflation has been pegged at 3.5%, and for the period from 1st July, 2004 through 1st July, 2005 at 2.1%. In 2004, we raised our one-off and recurring charges for telephone lines to the full extent permitted under this system. We did not raise our minute prices for traffic.

In connection with the fixed terminating access ('FTA') fees of other (non-SMP) fixed operators OPTA announced a policy change in July 2004 in the way in which our retail tariffs for off-net calls to other fixed operators are tested against the requirement of cost orientation. Starting immediately, our fixed-to-fixed off-net tariffs are no longer cost oriented if the FTA fee included in the tariff exceeds the maximum fair fee (based on so-called delayed reciprocity, i.e. linked to KPN's FTA rates three years back) set out in OPTA's April 2003 policy guidelines. In spite of these guidelines, which are the subject matter of various disputes and appeal proceedings, a number of fixed operators apply FTA tariffs that are higher. As a result of said policy change we are no longer allowed to pass the excess amount on to our retail customers. OPTA withheld its required consent to a proposed increase of our end-user prices for calls destined for the Versatel and Tele2 networks that would have reflected the FTA fees of these networks, which are in excess of the maximum fair fee. Furthermore, OPTA announced that it would impose a penalty-carrying order on us forcing us to decrease our current end-user prices for telephone calls destined for the Versatel network, which are higher than permitted under OPTA's new policy. We objected and at the same time urged OPTA to enforce the obligations of other fixed operators to lower their FTA rates rather than to allocate the financial risks fully to KPN.

On 16th July, 2004, OPTA issued a decision imposing a EUR 225,000 fine on KPN for knowingly violating the non-discrimination principle by allowing Carrier (Pre)Select (CPS) providers access to less telephone number information and at a higher price than KPN's own retail organization. The decision is based on OPTA's interpretation of the non-discrimination principle, which is unprecedented and much stricter than required under general competition case law. In our appeal to the Rotterdam District Court we have argued that there is no legal basis for OPTA's decision. In addition, we have appealed the degree to which the alleged violation is attributed to KPN and to the amount of the penalty. Judgement is pending.

In 2004, we conducted two short-term marketing actions. We gave customers an amount of money equal to the amount of the monthly charge for signing up for a '*BelZakelijk*' call bundle. We also gave CPS customers a gift voucher for transferring back to KPN. OPTA has taken enforcement actions in both instances (a EUR 450,000 fine for the *BelZakelijk* action and a penalty-carrying order up to a maximum of EUR 250,000, successfully forcing us to cease the gift voucher action), claiming that KPN is in breach of the obligation to apply cost oriented tariffs and discount schemes only if they have been approved by OPTA beforehand. We have contested these actions because we take the view that short-term marketing actions such as the above do not qualify as tariffs or discounts schemes and therefore do not require prior approval of OPTA. Judgement is pending in both proceedings.

### **Interconnection**

The prices we charge competitors for the use of our fixed network must be cost oriented. These are reviewed once a year and, no later than 1st July each year, OPTA sets the prices we may charge in the coming twelve months. The cost basis deemed to exist for a hypothetical efficient operator is used as the yardstick for cost

oriented prices for the terminating access service. This cost basis has been modeled on the 'Bottom-up Long Run Incremental Costs' (BU-LRIC) cost allocation model. Our actual cost basis is taken as the criterion for prices for originating access services (special access) and unbundled access services. The Embedded Direct Cost (EDC) model is used to allocate these costs.

As regards the tariffs that apply for the period 2003/2004, OPTA decided on 30th June, 2004 to withdraw its decisions of 24th July, 2003, 4th September, 2003 and the enforcement decision of 3rd December, 2003 (against each of which we had lodged objections). At the same time, OPTA approved the cost allocation systems (EDC VI and BU-LRIC III) submitted by us in accordance with the instructions issued by OPTA in respect of the systems we had submitted in 2003, and assessed the tariffs arising from these systems as cost oriented tariffs for the terminating access, originating access and unbundled access services for the period 2003/2004 as well as for the period starting on 1st July, 2004, until the moment the new legal framework takes effect, but no later than on 31st December, 2005. The outcome of this transitional regime is acceptable to us, but not to Tele2 and ACT who have filed objections. Most of their arguments, such as the non-regulation of our tariffs for transit services, had been put forward on earlier occasions (and dismissed by OPTA), but new objections have been raised against the fact that OPTA has not distinguished between terminating/originating access tariffs to/from PSTN/ISDN connections and terminating/originating access tariffs to/from VoDSL connections, as well as against the fact that OPTA has not applied cost orientation to the tariffs for bitstream access. All of these objections have been dismissed by OPTA. Tele2 and ACT have appealed this decision.

Within the context of appeal proceedings against OPTA's decisions to approve KPN's cost allocation systems for the periods 1999/2000, 2000/2001, 2001/2002 and 2002/2003, a number of market parties put forward a number of grounds for appeal, most importantly against OPTA's decision not to impose an obligation for cost orientation on KPN's tariffs for transit and inter-region connect services. In addition, Tele2 claimed that KPN's charges for originating access should also be based on the BU-LRIC cost allocation system. On 23rd December, 2004 the Rotterdam District Court decided that, although OPTA has discretionary power to distinguish between different cost allocation systems tailored to certain market characteristics, OPTA had no power not to instruct KPN to submit for approval a cost allocation system for transit and inter-region connect services. As regards Tele2's claim, the Court decided that OPTA had insufficiently motivated why – after its earlier announcement that the EDC model did not meet the requirements – it had decided to continue to use the EDC model rather than the BU-LRIC model as the cost allocation model for originating access services. The Court ordered OPTA to take a new decision. Both OPTA and KPN have lodged an appeal to the Trade and Industries Appeals Tribunal, whereas MCI, Priority, Enertel and MCI have asked for preliminary injunction.

Carrier (Pre)Selection (CPS) is currently available for four types of calls: local, national, fixed-to-mobile, and international calls. In the past, some CPS operators have expressed their wish to add non-geographic calls to the list of options. One of them, Tele2, has filed a request with OPTA to settle a dispute between Tele2 and KPN on this subject, requesting OPTA to impose on KPN the obligation to include non-geographic calls (to all existing and future non-geographic numbers) in the list of calls for which CPS is available. In our statement of defense we have pointed out that KPN cannot comply with Tele2's request without infringing its statutory and contractual obligations towards the service providers offering their services via non-geographic numbers to our customers on the basis of special access to the KPN network, and emphasized the necessity to consult these service providers before any decision can be taken. However, on 23rd December, 2004, OPTA ruled in favor of Tele2. KPN must add non-geographic calls within five months of the date of the decision. We have appealed this decision, and at the same time we make preparations to execute the decision.

### **Unbundled access**

We are required to provide our competitors (including our own services and our associated companies) with full and shared unbundled access to our local copper loops on fair, transparent and non-discriminatory terms and at cost-oriented prices. We must also allow a new entrant to co-locate its own network equipment. We are engaged in legal proceedings against OPTA's interventions in our periodic co-location prices (rent and electricity).

In its 19th December, 2003 decision, OPTA imposed a EUR 90,000 and a EUR 180,000 fine on us for violating the obligation to charge cost-oriented prices and the prohibition on discrimination in providing unbundled access to competing providers of DSL services, respectively. We have submitted a notice of objection to this ruling, which was rejected by OPTA in May 2004. We have appealed this decision before the Rotterdam District Court.

Within the context of a dispute referred to OPTA by bbned, Tiscali and Versatel, OPTA decided on 6th May, 2004 that we must co-operate in a migration process reducing the period for migrating an unbundled access line from one DSL provider to another substantially, thereby breaking down the barrier for customers to migrate from one DSL provider to another and stimulating competition in the DSL market. OPTA requires a written consent by the end-user upon which a request for migration can be issued by the recipient carrier to our wholesale department. The effect of this decision is difficult to quantify since much will depend on how successful DSL providers will be in attracting customers from their competitors.

### **Bitstream access**

Within the context of a dispute referred to OPTA by Tiscali, OPTA obliged us to make an offer to Tiscali for a bitstream access service identical to the bitstream access service provided to our own retail service (ADSL by KPN) and at cost-oriented prices. We requested, and obtained, injunctive relief from the President of the Rotterdam District Court on the grounds that the bitstream access service does not qualify as special access to our telephone network. Nonetheless, in its decision on our objections OPTA upheld its earlier views, whereupon we lodged an appeal to the Rotterdam District Court and at the same time asked for a preliminary injunction. On 30th October, 2003, the President of the Rotterdam District Court sustained our claims, referring to the grounds set out in the Court's earlier judgment, and ordered OPTA to review its original decision in light of our objections on the grounds set out in the Court's judgment. Both OPTA and Tiscali have appealed against this judgment but the Trade and Industry Appeals Tribunal upheld the Court's judgment in its 16th April, 2004 decision.

### **Leased lines**

Enacted by order of 27th March, 2002, OPTA designated us as having significant market power in seven market segments, namely the national markets for national analog leased lines, international analog leased lines, national leased lines with a capacity smaller than 2 Mb/s, international leased lines with a capacity smaller than 2 Mb/s, national leased lines with a capacity of 2 Mb/s, international leased lines with a capacity of 2 Mb/s and national leased lines with a variable capacity. The designation does not apply to the market segment for leased lines with a capacity greater than 2 Mb/s, whereas our designation in the market for international leased lines with a capacity of 2 Mb/s was later revoked by OPTA. Following a succession of injunctive relief and appeal proceedings, on 8th September, 2004 the Trade and Industry Appeals Tribunal dismissed our appeal against our designation in the markets for national analog leased lines, international analog leased lines and national leased lines with a capacity smaller than 2 Mb/s. As regards our designation in the markets for international leased lines with a capacity smaller than 2 Mb/s, national leased lines with a capacity of 2 Mb/s and national leased lines with a variable capacity (PVCs), the Tribunal instructed OPTA to take a new decision on our objections because in its view OPTA had insufficiently investigated and analyzed the relevant markets. In its 15th December, 2004 decision OPTA remedied the failures identified by the Tribunal and reinstated our designation in the three markets, except that the PVC market now includes X.25, Frame Relay and ATM services only and does not include IP and Ethernet services.

### **Mobile telecommunications – International Roaming**

The market for international roaming has been under investigation by the European Commission since 1999 with an initial sector inquiry resulting in a working document in December 2000 and unannounced inspections of the offices of mobile network operators in the United Kingdom and Germany, including E-Plus, in July 2001. The Commission said it was seeking evidence of collusion and/or excessive prices in relation to both retail and wholesale roaming charges, and the Commission has subsequently sought, or been provided with, additional information about roaming charges. In July 2004 the Commission sent so-called Statements of Objections to Vodafone UK and O2 UK, in which these parties were accused of abusing their

dominant positions on the market for wholesale international roaming, by charging excessive tariffs (so-called Inter Operator Tariffs, or IOT). In February 2005, in a similar investigation in the German market the European Commission sent statements of objectives to T-Mobile Germany and Vodafone Germany.

One of the markets defined in the Recommendation under the new European regulatory framework to be investigated by NRAs is the wholesale international roaming market. At 10th December, 2004 all NRAs of the European Union (and of Norway, Iceland and Liechtenstein) were required to send out a harmonized questionnaire to all operators. The German NRA has not yet sent the questionnaire. Ten of these NRA's (including OPTA) will conduct a joint market analysis by means of sharing the information and data received.

### **Mobile telecommunications – Germany**

On 19th May, 2004, 01081 Telecom AG submitted a formal request for interconnection with the E-Plus GSM network to the German regulator RegTP because it did not want to accept the MTA tariffs offered by E-Plus (EUR 0.149 as from 15th December, 2004; EUR 0.124 as from 15th December, 2005). On 20th September, 2004, RegTP decided that E-Plus has to technically interconnect its network with the network of 01081 Telecom AG. Within a second consecutive procedure, RegTP decided on 28th December, 2004 that the 2005 MTA tariffs would be EUR 0.149. This decision is being challenged by 01081 Telecom AG.

### **Mobile telecommunications – The Netherlands**

#### **Licenses**

All mobile operators in the Dutch mobile market (KPN, Vodafone, T-Mobile and Orange) acquired a UMTS license on 7th August, 2000. Versatel filed complaints about the auction procedure and the awarding of the licenses, which were rejected by the *College van Beroep voor het bedrijfsleven* on 29th March, 2004 in highest instance. Under the license, the operators have rollout obligations for the UMTS networks. As of 1st January, 2007, all built-up areas in municipalities with over 25,000 inhabitants, all main roads (car, rail and waterways) in between, all motorways to Germany and Belgium and the areas around the airports of Schiphol, Rotterdam and Maastricht should be covered at a minimum level of 144 Kb/s outdoors.

Orange instituted civil proceedings against the State of the Netherlands claiming damages in relation to the DCS 1800 licensing, by which Orange paid approximately EUR 270 million in an auction. According to Orange, the State allowed the creation of an unlevelled playing field in the Dutch mobile market because KPN Mobile and Vodafone were not required to pay separate fees for the GSM 900 frequencies. These claims were rejected in the first instance, but Orange has lodged an appeal.

#### **Significant market power and special access**

KPN Mobile was designated in 1999 as an operator with significant market power in the market for mobile public telephone networks and services. As a result of the designation, KPN Mobile was required to meet reasonable requests for special access and to offer interconnection and special access in a non-discriminatory way.

Following an original request of Yarosa, a mobile entertainment company, OPTA obliged KPN Mobile to present an offer to Yarosa, based on access of the Yarosa SMS switch to the KPN Mobile MSC, against a much lower tariff than offered originally by KPN Mobile. After several proceedings before OPTA and the Rotterdam District Court, OPTA decided on 30th November, 2004, to withdraw the obligation for KPN Mobile to offer special access to Yarosa. Since it is most likely KPN Mobile will not be found dominant in the market for access and call origination, OPTA judged that it would no longer be reasonable to require KPN Mobile to offer such access.

#### **Mobile terminating access**

On 4th December, 2003 the NMa announced to halt its investigation into a potential abuse of dominant position in relation to MTA tariffs, upon a voluntarily agreed reduction of MTA tariffs by the mobile

operators. As of 1st January, 2004, the tariffs of KPN Mobile and Vodafone were reduced to EUR 0.155 per minute, with further reductions on 1st December, 2004 (EUR 0.13) and 1st December, 2005 (EUR 0.11). Maximum tariff for all the other operators (Orange and T-Mobile and the virtual mobile operator Tele2 Mobiel) were set at EUR 0.175 as of January 2004, EUR 0.147 as of December 2004 and EUR 0.124 as of December 2005. In remaining disputes between fixed and mobile operators, OPTA has decided in line with these reductions, which some of the fixed operators appealed to the Rotterdam District Court.

It is expected that as a result of the 2004 market analysis procedure OPTA may impose remedies on the operators in relation to these MTA tariffs. In December 2003, OPTA announced that, based on current views, it expected to regulate MTA tariffs, based on a cost allocation system (Long Run Incremental Costs (LRIC)) on or after 1st December, 2005. In order to avoid distortion, OPTA expected that it would introduce a sliding scale to the cost-oriented level in connection with the last step of the published schedule.

The European Commission investigated complaints against KPN, initiated in 1999 by WorldCom. The European Commission issued a Statement of Objections in March 2002, in which it expressed the opinion that KPN Mobile abused its dominant position in relation to mobile termination by discriminating, setting unfair prices (resulting in a margin-squeeze between MTA tariffs and certain fixed-mobile on-net tariffs within VPN services) and refusing to provide direct interconnection. In October 2004, the European Commission informed KPN that the complaint was withdrawn and the case would no longer be pursued.

### **Dealer commissions**

After an investigation into the reduction of subsidies to mobile handset retailers by mobile phone operators in the Netherlands, including KPN Mobile, the NMa concluded that all five mobile operators coordinated a decrease of the commissions to their dealers and a decrease of the handset subsidy for prepaid subscriptions. On 30th December, 2002, the NMa published its decision and fined the operators a total amount exceeding EUR 88 million. The fines are revenue related and KPN Mobile's fine amounts to EUR 31.3 million. Upon objection of KPN Mobile and the other operators NMa reduced the level of fines in September 2004 (in total to approximately EUR 52 million). KPN Mobile's fine was reduced to EUR 12.63 million. Appeal procedures have been initiated.

### **Numbers and number portability**

OPTA has formulated policy guidelines concerning the quality of mobile number portability. As of October 2003, OPTA introduced an amendment to the guidelines, requiring operators to transfer numbers within 10 days upon a customer's request, notwithstanding existing terms of contract duration. KPN Mobile did not agree with the amendment and OPTA imposed a penalty-carrying order on us. After initial suspension of OPTA's decision by the President of the Rotterdam District Court, on 8th December, 2004, the *College van Beroep voor het bedrijfsleven* annulled OPTA's decision in highest instance.

### **Mobile telecommunications – Belgium**

#### **Peak/off-peak litigation against Proximus**

As from October 2003, BASE changed its peak hours for interconnect from 8-19 to 10-22 hours and abolished its low weekend interconnect tariff. BIPT confirmed the reasonableness of the interconnect request of BASE in a decision of 29th August, 2003. Proximus has appealed this decision before the Brussels Court of Appeals and BASE has intervened in this procedure. On 18th June, 2004, the Court has partially annulled the decision of the BIPT. The Court has not questioned BIPT's determination that the change of BASE peak/off-peak hours was reasonable, but has overruled BIPT's decision to impose on Proximus the requirement to accept an amended interconnect agreement between BASE and Proximus. BIPT has lodged an appeal before the Supreme Court (*Hof van Cassatie*) in order to have the judgment of the Court of Appeals annulled. Proximus is now withholding monthly payments of approximately EUR 350,000 in fees on the basis of the court decision (current total: EUR 5.2 million). BASE and Proximus have now started a formal negotiation process.

### **Abuse of dominance: litigation against Proximus**

On 25th June, 2003, BASE has initiated court proceedings against Proximus for abuse of dominant position. BASE wishes Proximus to reduce its interconnect rates and to pay compensation to BASE for the damages suffered by BASE due to this anti-competitive behavior (estimated at EUR 560 million). On 1st March, 2004, Mobistar has voluntarily intervened in the procedure. Mobistar provisionally estimates its claim against Proximus at EUR 106 million. BASE submitted its trial brief and the financial report substantiating its claim on 26th August, 2004. This procedure is currently pending.

### **Abuse of dominance: litigation against Belgacom**

According to BASE, Belgacom has, by not accepting the Mobile Terminating Rates (MTR) set by BASE, abused over the last years its dominant position on the transit of international incoming traffic. Because negotiations to reach an amicable settlement failed, on 2nd June, 2004, BASE lodged a complaint against Belgacom before the Belgian Competition Council. This procedure is currently pending.

### **Use of SIM-boxes: litigation against The Phone Company**

The Phone Company was a company reselling BASE SIM-cards in SIM-boxes. Once BASE discovered this abuse, it ended its contractual relationship with The Phone Company. By judgment of 9th December, 2003, the Brussels Court considered The Phone Company's use of SIM-boxes for reselling BASE airtime as illegal and confirmed as such the validity of BASE's decision to suspend the SIM-cards used by The Phone Company in its SIM-boxes. The Court of Appeals confirmed the first judgment in September 2004.

### **SMS cartel: Investigation by the Competition Council**

In May 2004, three Members of Parliament of ECOLO (an environmental party) lodged a complaint with the Belgian Competition Council against BASE, Proximus and Mobistar. According to them, the operators have established a cartel in relation to SMS pricing in order to keep SMS-prices at an artificially high level. Following this complaint, the Competition Council has sent out an information request, to which BASE replied on 24th September, 2004.

### **Royal Decree on antenna radiation: annulment procedure**

By a decision of 15th December, 2004, the State Council annulled, on the basis of procedural grounds, the royal decree of 2001 on antenna radiation. The consequences of this annulment are currently under review.

### **Number portability – porting costs: annulment procedure**

A specific clause of the royal decree of 23rd September, 2004 on number portability authorizes BIPT to determine the costs that mobile operators may charge one another for performing the porting-out of a customer to a competitor. The basis for these charges should be the costs 'of an efficient operator'. Specifically against this clause, BASE has launched an annulment procedure before the State Council. This procedure is currently pending.

### **Number portability – porting costs: appeal procedure**

In a decision of 16th September, 2003, BIPT determined the costs that mobile operators may charge one another for performing the porting-out of a customer to a competitor. Following an appeal by Mobistar, the Court of Appeals, by judgment of 14th October, 2004, suspended the decision of BIPT, and has asked a number of 'prejudicial' questions to the European Court in relation with the directives 2002/22 (universal service) and 2002/21 (framework directive).

## 5. LEGAL AND ORGANIZATIONAL 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 at 31st December, 2004.

Name of Subsidiaries and other principal interests	Country of incorporation	Percentage ownership/voting interest
<b>KPN Telecom B.V.:</b>	The Netherlands	100.0
• KPN EnterCom Solutions B.V.	The Netherlands	100.0
• KPN EuroRings B.V.	The Netherlands	100.0
• EuroWeb International Corp.	USA	43.54 <sup>(a)</sup>
• KPN Satcom B.V.:	The Netherlands	100.0
• Xantic B.V.	The Netherlands	65.0 <sup>(b)</sup>
• Infonet Nederland B.V.	The Netherlands	100.0
• HubHop B.V.	The Netherlands	100.0
• PanTel Rt.	Hungary	75.19 <sup>(c)</sup>
<b>KPN Telecommerce B.V.:</b>	The Netherlands	100.0
• KPN Consumer Internet and Media Services B.V.	The Netherlands	100.0
• XS4ALL Holding B.V.	The Netherlands	100.0
• SNT Group N.V.	The Netherlands	93.70 <sup>(d)</sup>
<b>KPN Mobile Holding B.V.:</b>	The Netherlands	100.0
• GMI Mobilfunk Beteiligungen GmbH	Germany	100.0
• E-Plus Mobilfunk GmbH & Co.KG	Germany	22.51
• KPN Mobile N.V.:	The Netherlands	97.84 <sup>(e)</sup>
• KPN Mobile The Netherlands B.V.	The Netherlands	100.0 <sup>(f)</sup>
• KPN Mobile International B.V.	The Netherlands	100.0 <sup>(f)</sup>
• BASE N.V./S.A.	Belgium	100.0 <sup>(f)</sup>
• E-Plus Mobilfunk GmbH & Co.KG	Germany	77.49 <sup>(f)</sup>
<b>KPN Vastgoed &amp; Facilities B.V.</b>	The Netherlands	100.0

(a) On 2nd February, 2005, we reached an agreement with Corcyra in Croatia on the sale of our 43.5% stake in EuroWeb International Corp. It is expected that the sale will be completed no later than 1st May, 2006.

(b) On 15th August, 2005, we signed a letter of intent with Telstra Austria pursuant to which we intend to sell our interest in Xantic B.V. The sale is expected to close towards the end of 2005 or in early 2006 (see "Recent Developments" above).

(c) PanTel was sold on 28th February, 2005 (see "Recent Developments" above).

(d) On 27th May, 2005, the extraordinary general meeting of shareholders of SNT approved the juridical merger between SNT, KPN Telecommerce B.V., a 100% subsidiary of the Issuer, and the Issuer. As of 28th May 2005, SNT ceased to exist.

(e) NTT DoCoMo owns the additional 2.16% of KPN Mobile N.V.

(f) Ownership interest of KPN Mobile N.V.

(g) On 28th June, 2005, we reached an agreement in principle to acquire Telfort, the Dutch mobile operator, with 2.4 million subscribers, for a total consideration of €980 million on a debt and cash free basis (see "Recent Developments" above).

The overview below reflects our organizational structure as of 31st December, 2004.

#### Board of Management

- Support:
  - Corporate Center
  - KPN Services
- Divisions
  - Fixed division
    - Fixed Networks
      - Fixed Telephony
      - Carrier Services
      - Broadband
      - SNT
      - XS4ALL
      - KPN TV<sup>(1)</sup>
      - Planet Media Group
      - Fixed Network Operator
      - KPN.com<sup>(2)</sup>
    - Business Solutions
      - Connectivity
      - Integrated & Managed Solutions
      - KPN EnterCom
  - Mobile division
    - E-Plus
    - KPN Mobile The Netherlands
    - BASE
  - Other activities
    - KPN Sales (including External Distribution)<sup>(2)</sup>
    - KPN Retail<sup>(2)</sup>
    - Xantic<sup>(3)</sup>
    - Infonet<sup>(4)</sup>
    - PanTel<sup>(5)</sup>
    - EuroWeb<sup>(6)</sup>

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#### Notes:

- (1) KPN TV is regarded as a business unit as from 1st January, 2005.
- (2) Distribution channel.
- (3) On 15th August, 2005, we signed a letter of intent with Telstra Austria pursuant to which we intend to sell our interest in Xantic B.V. The sale is expected to close towards the end of 2005 or in early 2006 (see “Recent Developments” above).
- (4) Infonet was sold on 25th February, 2005.
- (5) PanTel was sold on 28th January, 2005.
- (6) On 2nd February, 2005, we reached an agreement with Corcyra in Croatia on the sale of our 43.5% stake in EuroWeb International Corp. It is expected that the sale will be completed no later than 1st May, 2006.

In the first quarter of 2005, we started to simplify our group structure by dismantling our Mobile headquarters and KPN Services. On 1st April, 2005, the new structure of the Fixed division became effective. This new structure is based on the separation of network operations – focusing on operational assets, costs and operational excellence – from retail service providers (Consumer and Business), which will focus on customers, customer acquisition, revenues and margin. In addition, our international Mobile operations in Germany and Belgium have been brought under single management.

As from 1st January, 2004, we transferred KPN EnterCom from Other activities to the Fixed division. In addition, we also transferred the distribution channel for personal sales, KPN Sales (including External Distribution), from the Fixed division to Other activities. Within the Fixed division, various activities were transferred within Fixed Networks as well as Business Solutions. Within Business Solutions, we have

divided our activities into three new business units (Connectivity, Integrated & Managed Solutions and KPN EnterCom).

The new business unit Connectivity consists of the former business units:

- Transmission Services;
- KPN EuroRings; and
- the IP-VPN (Ecapacity) and Internet Access activities from IP Services.

Integrated & Managed Solutions contains the former business units:

- Integrated Solutions;
- Managed Application Services; and
- the MVPN activities from IP Services.

The remaining activities of former business unit IP Services were integrated into the new business unit Broadband (ADSL) and subsequently transferred from Business Solutions to Fixed Networks.

## **6. TREND INFORMATION**

There has been no significant change in the financial or trading position of the Issuer or the Issuer and its subsidiaries, taken as a whole, and there has been no material adverse change in the financial position or prospects of the Issuer, or the Issuer and its subsidiaries taken as a whole, since 31st December, 2004.

## **7. ADMINISTRATIVE, MANAGEMENT AND SUPERVISORY BODIES**

### **7.1 Board of Management**

The Board of Management, supervised and advised by the Supervisory Board, manages our 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 Annual General Meeting (see the 'Remuneration report' set out in the 2004 Form 20-F for more detailed information on remuneration) and the recommendations by the Remuneration & Organization Development Committee. On the basis of the Dutch Civil Code, our articles of association and the by-laws of the Board of Management, certain decisions of the Board of Management require the approval of the Supervisory Board. These decisions include approval of the annual plan and budget, approval of resolutions that exceed certain thresholds, expanding the business materially affecting the existing business and the closing down of business if this results in a material change for a considerable number of employees. A complete overview of such decisions is included in the by-laws of both our Supervisory Board and Board of Management which are available on our website [www.kpn.com](http://www.kpn.com) under the section Investor Relations, Corporate Governance.

In 2004, our Board of Management consisted of four members: the Chairman of the Board, the Chief Financial Officer, the Managing Director of the Fixed division and the Managing Director of the Mobile division. As per 11th September, 2004, Mr. M.H.M. Smits succeeded Mr. J.M. Henderson as our Chief Financial Officer. Mr. E. Blok was appointed member of the Board of Management on 15th April, 2004 and was responsible for the Fixed division. He resigned from the Board of Management on 23rd December, 2004.

## Current Members

The current members of our Board of Management are:

<u>Name</u>	<u>Date of birth</u>	<u>Position</u>	<u>Appointed on</u>
A.J. Scheepbouwer	22nd July, 1944	Chairman of the Board and Chief Executive Officer	1st November, 2001
M.H.M. Smits	14th September, 1961	<ul style="list-style-type: none"><li>• Member of the Board</li><li>• Chief Financial Officer</li></ul>	<ul style="list-style-type: none"><li>• 9th August, 2004</li><li>• 11th September, 2004</li></ul>
G.J.M. Demuyneck	21st March, 1951	Member of the Board	1st January, 2003

**Mr. A.J. Scheepbouwer** was appointed Chairman of our Board of Management and Chief Executive Officer on 1st November, 2001. As from 23rd December, 2004 he is, on an ad interim basis, also responsible for our Fixed division. From 1976 to 1988, he 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, Mr. Scheepbouwer 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 Mr. Scheepbouwer became Chief Executive Officer. From June 1998 until 9th September, 2001, he was a member of our Supervisory Board. He is currently Chairman of the Supervisory Board of KPN Mobile N.V. On 15th August, 2005, the Supervisory Board of KPN announced that Mr. Scheepbouwer's current employment contract, which was due to terminate on 1st July, 2006, was to be extended until no later than 1st July, 2009 (see "Recent Developments" above).

**Mr. M.H.M. Smits** was appointed member of the Board of Management on 9th August, 2004 and has been the Chief Financial Officer since 11th September, 2004. He is former member of the Board of Management and Chief Financial Officer of Vendex KBB N.V. Before that he held various (financial) management positions at Unilever. He is currently member of the Supervisory Board of E-Plus Mobilfunk Geschäftsführungs GmbH, of the Supervisory Board of KPN Mobile N.V. and member of the Supervisory Board of the Delta Lloyd Insurance Company.

**Mr. G.J.M. Demuyneck** was appointed member of the Board of Management on 1st January, 2003 and is responsible for our Mobile division and is managing director of KPN Mobile The Netherlands. He joined our Company from Royal Philips Electronics N.V., where he had been CEO of the Consumer Electronics Division since 2000. He has been with Philips since 1976 and worked for the company in the USA as Vice-President Marketing Audio, in South Korea as the Chief Executive Officer of Philips Electronics South Korea, and in Hong Kong as General Manager Business Group Audio. He was appointed member of the Group Management Committee in April 2000 and was responsible for the Division of Consumer Electronics until 31st December, 2002. He is currently Chairman of the Supervisory Board of E-Plus Mobilfunk Geschäftsführungs GmbH and Chairman of the Supervisory Board of Xantic B.V.

The business address of each of the members of the Board of Management is Maanplein 55, 2516 CK, The Hague, the Netherlands.

## Composition of the Supervisory Board

The current members of the Supervisory Board are:

<u>Name</u>	<u>Date of birth</u>	<u>Start of term</u>	<u>End of term</u>
A.H.J. Risseeuw (Chairman)	9th November, 1936	2nd May, 2001	2005
D.G. Eustace (Vice-Chairman)	3rd July, 1936	27th April, 2000; 15th April, 2004*	2008
M. Bischoff	22nd April, 1942	12th May, 2003	2007
V. Halberstadt	16th June, 1939	11th May, 1995; 29th April, 1999*; 12th May, 2003*	2007
D.I. Jager	30th April, 1943	25th April, 2002	2006
M.E. van Lier Lels	19th October, 1959	2nd May, 2001	2005
J.B.M. Streppel	11th October, 1949	12th May, 2003	2007

\* Re-appointed

**A.H.J. Risseeuw (1936)**

Mr. Risseeuw joined the Supervisory Board in 2001. Mr. Risseeuw was reappointed as a member of the Supervisory Board at the Annual General Meeting on 12th April, 2005 and his term expires in 2009. He has been the Chairman of the Supervisory Board since 10th September, 2001. He chairs the Nominating & Corporate Governance Committee and is a member of the Remuneration & Organization 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 Samas-Groep N.V., Groeneveld Groep B.V. and Intergamma B.V. and a member of the supervisory boards of Heineken N.V. and Blokker Holding B.V. Mr. Risseeuw is a Dutch citizen.

**D.G. Eustace (1936)**

Mr. Eustace was reappointed as Member of the Supervisory Board on 15th April, 2004 and his term expires in 2008. Mr. Eustace is the Vice Chairman of the Supervisory Board since 10th September, 2001, and he chairs the Audit Committee. He is the former Vice Chairman of the Board of Management and Chief Financial Officer of Royal Philips Electronics N.V. He is the Chairman of the Board of Smith & Nephew Plc., Vice Chairman of the Supervisory Boards of AEGON N.V., and Hagemeyer N.V. and Chairman of the Board of Sendo Holding Plc. Mr. Eustace is a British and Canadian citizen.

**Dr. M. Bischoff (1942)**

Dr. M. Bischoff was appointed Member of the Supervisory Board on 12th May, 2003 and his term expires in 2007. He is a member of the Audit Committee. Dr. Bischoff is Chairman of the board of directors of the European Aeronautic Defence and Space Company (EADS) N.V. He is chairman of the supervisory board of DaimlerChrysler Luft- und Raumfahrt Holding A.G., a member of the supervisory boards of Bayerische Hypo- und Vereinsbank AG, Fraport AG, Gerling Konzern Versicherungs-Beteiligungs-AG, Lagardère-Sociétés S.A. and J.M. Voith AG and member of the Board of Directors of Nortel Networks Corp. and Nortel Networks Ltd. Dr. Bischoff is a German citizen.

**Prof. V. Halberstadt (1939)**

Prof. Halberstadt was reappointed Member of the Supervisory Board on 12th May, 2003 and his term expires in 2007. He is a member of the Remuneration & Organization Development Committee, as well as the Nominating & Corporate Governance Committee. He is Professor of Public Finance at the University of Leiden, International Advisor of Goldman Sachs Group Inc., non-executive director of PA Holding Ltd. and Chairman of the International Advisory Board of DaimlerChrysler AG. He is a member of the Supervisory Boards of TPG N.V., DaimlerChrysler AG and Het Concertgebouw N.V. Prof. Halberstadt is a Dutch citizen.

**D.I. Jager (1943)**

Mr. Jager is Member of the Supervisory Board since 2002 and his term expires in 2006. Mr. Jager is the chairman of the Remuneration & Organization Development Committee, as well as the Nominating & 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. He currently is an independent consultant and private investor. Mr. Jager also serves on the Boards of Eastman Kodak Inc., Chiquita Brands International Inc. and Polycom Inc. as a non-executive board member and is a member of the Supervisory Board of HealthPro Brands, Inc. Mr. Jager is both a US and Dutch citizen and resides in the United States.

**M.E. van Lier Lels (1959)**

Ms. Van Lier Lels is Member of the Supervisory Board since 2001. Ms. Van Lier Lels was reappointed as a member of the Supervisory Board at the Annual General Meeting on 12th April, 2005 and her term expires in 2009. She is a member of the Remuneration & Organization Development Committee, as well as the Nominating & Corporate Governance Committee. During 2004, she was the Executive Vice President and

Chief Operating Officer of Schiphol Group N.V. She is a member of the Supervisory Boards of United Services Group N.V. and Delft University of Technology. Ms. Van Lier Lels is a Dutch citizen.

### **J.B.M. Streppel (1949)**

Mr. J.B.M Streppel was appointed Member of the Supervisory Board on 12th May, 2003 and he is also a member of the Audit Committee. His term expires in 2007. He currently is a member of the Executive Board and Chief Financial Officer of AEGON N.V. Mr Streppel has held various management positions at AEGON N.V., Labouchere N.V. and FGH Bank N.V. He is a member of the Commission for public bids of the Netherlands Authority for the Financial Markets (AFM), member of the Committee of Listed Companies of Euronext (Amsterdam) and Chairman of the Shareholders Communication Channel. Mr. Streppel is a Dutch citizen.

## **7.2 Potential Conflicts of Interest**

No member of the Board of Management or Supervisory Board has any actual or potential conflict of interest that is material in the context of an issue of Notes under the Programme. For the sake of completeness, refer to “Transactions with directors and related parties” on page 172 of the 2004 Form 20-F for details of the material transactions between the Issuer and members of the Supervisory Board or Board of Management.

## **8. BOARD PRACTICES**

### **8.1 Audit committee**

The Audit Committee’s task is to supervise the (quality of the) accounting and financial reporting practices, including quarterly and annual reporting, accounting and financing reporting policies and procedures, the (quality of the) internal control system and internal audit function, the independent external audit of the Financial Statements, and the performance and evaluation of the external auditor. The task of the Audit Committee in the area of financial reporting and accounting practices is to provide reasonable assurance that the financial disclosures prepared by management adequately reflect KPN’s financial condition, results of operations, cash flows and long-term commitments.

The Audit Committee consisted in 2004 of three Supervisory Board Members, Mr. Eustace (Chairman), Mr. Bischoff and Mr. Streppel. In 2004, the Audit Committee held eleven meetings. During those meetings, the Audit Committee reviewed and discussed the 2003 annual results, annual report and Form 20-F including the report of the Disclosure Committee, as well as the quarterly results, the financial position, budgets and projections, and the quarterly reports of the internal and the external auditor. The internal control framework and risks were discussed as well. In addition, the progress on implementation of the Sarbanes Oxley Act and IFRS was monitored throughout the year. The financial framework of the company was discussed extensively. The Committee updated its Charter to the requirements of the Dutch Corporate Governance Code and Dutch Company Law. All major conclusions of the Audit Committee were reported to the Supervisory Board. The Committee had a separate meeting with PricewaterhouseCoopers and met separately with KPN’s internal auditor in 2005 with respect to the 2004 Consolidated Financial Statements.

Upon being informed of the possible irregularities in discounts that had been provided to certain customers in the business segment, the Audit Committee launched an independent investigation, for which it retained outside legal counsel.

### **8.2 Corporate Governance**

The year of 2004 was a year of checking and amending existing rules, procedures and by-laws for compliance with the Dutch Corporate Governance Code (the ‘Dutch Corporate Governance Code’) that was issued by the Tabaksblat Committee on 9th December, 2003. It also meant adopting new regulations and implementing additional procedures. We adopted new by-laws for our Supervisory Board, Board of Management, Nominating & Corporate Governance Committee and Remuneration & Organization Development Committee. We changed our policy with respect to the term of appointment of new members of the Board of Management by reducing this term to four years. We also adopted regulations concerning

ownership of and transactions in securities by members of our Supervisory Board and our Board of Management and setting up a procedure for these members to inform the compliance officer with respect to this.

The Dutch Corporate Governance Code contains 21 principles that are elaborated in 113 best practice provisions. 17 of these provisions do not apply to us as these relate to institutional investors or to Dutch depository receipts of shares that we do not have. The Dutch Corporate Governance Code has its statutory basis in Book 2 of the Dutch Civil Code and applies to companies with their registered office in the Netherlands whose shares are listed on a stock exchange either domestically or abroad. The Dutch Corporate Governance Code is generally considered to be a considerable step forward for Dutch standards on corporate governance. The Dutch Corporate Governance Code is based on the principle that a company is a long-term form of collaboration between the various parties involved. The Board of Management and the Supervisory Board have overall responsibility for considering the interests, generally with a view to ensure the continuity of the enterprise. In doing so, the company endeavors to create long-term shareholder value and the Board of Management and Supervisory Board should take account of the interests of the different stakeholders.

We fully support the principles of the Dutch Corporate Governance Code and we are nearly fully compliant with its best practice provisions. It should be noted that we do not fully apply provisions II.1.1 (*A management board member is appointed for a maximum period of four years. A member may be reappointed for a term of not more than four years at a time*), 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*) and III.7.3 containing a similar rule for Supervisory Board members.

We apply provision II.1.1 as of 2004 meaning that Messrs. Blok and Smits, who were appointed in April 2004, were appointed for a term of four years. We respect however the indefinite appointment term of Mr. Scheepbouwer and Mr. Demuynck, which is also laid down in their agreements, as we endorse the universal premise that existing agreements should be respected. Also due to this universal premise, we do not apply provision II.2.2 in full on the options we grant to Mr. Scheepbouwer. We 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. We do however apply provision II.2.1 (*Options to acquire shares are a conditional remuneration component, and become unconditional only when the management board members have fulfilled predetermined performance criteria after a period of at least three years from the grant date*) on our other members of the Board of Management. Under provisions II.2.6 and III.7.3, we require our 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. We do not believe that there is any merit in informing the compliance officer on a more regular basis, as it does not address the real issue at stake, being that the members of these boards should dedicate sufficient time to their primary function and it only increases the administrative burden on both the members of these boards as on the compliance officer. Our position vis-à-vis all best practice provisions is available on our website.

We remain of the opinion that a governance regime should strike the right balance between transparency of rules and avoidance of bureaucracy caused by excessive detail in order for Dutch companies to remain internationally competitive. Application of sound corporate governance principles is important for a company but it should not be an end in itself. The true aim is to achieve and maintain a culture of honesty and integrity. This aim can, ultimately, be achieved only if the culture and behavior in a company are in all respects positive and transparent.

### **8.3 Other corporate governance requirements**

We are listed on the New York Stock Exchange ('NYSE') and qualify as a foreign private issuer under the NYSE stock exchange rules. As such we need to disclose significant differences between NYSE's corporate

governance requirements for U.S. issuers and our corporate governance practices in the Netherlands. An overview disclosing these differences is available on our website [www.kpn.com](http://www.kpn.com) under the section Investor Relations, Corporate Governance.

We are also listed on Euronext Amsterdam, the London Stock Exchange and the Frankfurt Stock Exchange.

#### **8.4 Legal structure of the Company resulting from changes in Dutch company law**

Under Section 6, Part 4 of Book 2 of the Dutch Civil Code, the rules for large companies are mandatory for us. As such, we have a two-tier management structure with a Board of Management and a Supervisory Board. Among the powers vested in the Supervisory Board is the power to appoint and remove members of the Board of Management. Some of the resolutions of our Board of Management are also subject to the approval of the Supervisory Board. As a result of a change in Dutch company law per 1st October, 2004, shareholders' rights have increased while the rights of the Supervisory Board have decreased. 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. A proposal to amend our articles of association was approved by the Annual General Meeting of Shareholders in 2005. For a discussion of our articles of association and the proposed amendments which were approved at the Annual General Meeting, please see 'Shareholder's rights' set out in the 2004 Form 20-F.

#### **8.5 Ongoing impact of the US Sarbanes-Oxley Act**

Given our listing on the New York Stock Exchange, we have to comply with the requirements of the Sarbanes-Oxley Act. During 2004 our compliance efforts focused on further improving our internal controls over financial reporting.

Our Sarbanes-Oxley project, which started in 2003, focused in 2004 mainly on the design and partly on the operating effectiveness of controls over financial reporting. A special internal control evaluation tool was developed to support this process. Our risk management system was further enhanced and we initiated the set up of a Business Control Framework, based on the COSO Internal Control Framework.

We investigated the requirements for anti-fraud programs and controls and measurements are established.

In 2005 the Sarbanes-Oxley project will continue and we will further enhance the internal control framework.

#### **8.6 Increasing transparency**

We attach great value to our relations with our shareholders and other capital providers. To this end, we strive for correct, timely and full disclosure of our activities, financial position and results. The procedures for safeguarding this level of disclosure are monitored by our Disclosure Committee. Our financial results are released on a quarterly basis. The Chief Executive Officer is primarily responsible for investor relations.

Public companies are being called upon to increase their transparency, not only in respect of financial information but also with regard to corporate information. In 2004 we substantially increased the amount of corporate information provided by us on our website and made available the by-laws of our Supervisory Board, its committees, the Board of Management, the Heads of Agreement with the State of the Netherlands, our Code of Conduct and our 'apply or explain' checklist regarding our compliance with the Dutch Corporate Governance Code. Our efforts in recent years to increase our transparency have been recognized by the financial community. For example, the research institute of Rabobank (IRIS) investigated 88 Dutch listed companies with respect to their corporate governance policies and ranked us third in 2004. Furthermore, our annual reports over 2002 and 2003 were one of the nominees for the best Dutch annual report by the Dutch financial gazette, *Het Financieele Dagblad*.

## 9. MAJOR SHAREHOLDERS

### 9.1 General

The table below sets forth, as of the period indicated, the number of shares of each class of our voting shares held by anyone who owns 5% or more of these shares. The table also sets out the number of shares of each class beneficially owned by the members of our Supervisory Board and our Board of Management.

<u>Title of class</u>	<u>Identity of person or group</u>	<u>At 25th February, 2005</u>	<u>At 31st December, 2004</u>	<u>At 31st December, 2003</u>	<u>At 31st December, 2002</u>
Ordinary shares	The State of the Netherlands	331,966,893 (14.25%)	481,966,893 (20.7%)	481,966,893 (19.3%)	781,966,893 (31.39%)
Ordinary shares	Current members of our Board of Management and our Supervisory Board	Less than 0.01%	Less than 0.01%	Less than 0.01%	Less than 0.01%
Special share	The State of the Netherlands	1 (100%)	1 (100%)	1 (100%)	1 (100%)

Since 31st December, 2004, we completed a €985 million and a €250 million share repurchase programme. Subsequently we own 8.8 per cent. of the total number of shares outstanding. Since December 2004, 181 million shares have been repurchased which will be cancelled before the end of 2005 (see “Recent Developments” above).

As of 31st December, 2004, 58 ADR record holders held 7,858,616 ordinary shares in the form of American Depository Shares representing 0.34% of our outstanding ordinary shares.

As of 31st December, 2004, 26% of our outstanding ordinary shares was held by Dutch investors, including the State of the Netherlands (15% of the free float, i.e. disregarding the shares held by the State of the Netherlands). These shares were held by 15 registered shareholders and approximately 223,359 unregistered shareholders.

### 9.2 The State of the Netherlands

The State of the Netherlands, referred to hereinafter as the State, represented by the Ministry of Finance, is a large shareholder in our Company. The shareholding of the State slightly increased during 2004 as a result of the cancellation of shares we previously purchased. On 19th January, 2005, the State announced that it had sold 150 million shares in a block trade to Lehman Brothers Bank thereby reducing its shareholding in our Company to 14.25%. The State still holds the special share that carries the right to approve resolutions causing fundamental changes to the structure of the KPN group and certain additional rights. As part of our initial public offering in 1994, the State undertook not to exercise, not even in part, its special share privileges to protect our Company from undesirable shareholder influence. Following amendment of the Enabling Act in 2001, the State gave an undertaking to exercise the rights attached to the special share only to protect its financial interest as a shareholder. At that time, the State announced its intention to retain the rights attached to the special share until such time as its capital interest in our Company is substantially reduced. The State has announced that it intends to sell the remainder of its KPN shares, subject to market conditions.

Based on the judgments of the Court of Justice of the European Communities regarding golden shares, the European Commission has summoned the State before the European Court of Justice regarding the State’s special share in us. The European Commission believes that the special rights are contrary to the free movement of capital laid down in Article 56 of the EC Treaty and the right of establishment in Article 43. The State believes that the special share is an ordinary instrument of corporate law and that its rights are not contrary to the free movement of capital.

The State may not transfer or encumber the special share without the approval of the Board of Management and the Supervisory Board. The following resolutions require approval of the holder of the special share:

- resolutions to issue shares and/or restrict or exclude preemptive rights;

- resolutions of the General Meeting of Shareholders to extend the designation of the Board of Management as the competent body to issue shares and to restrict or exclude preemptive rights;
- resolutions of the General Meeting of Shareholders to authorize a corporate body to issue shares;
- resolutions of our Board of Management to acquire or dispose of an amount of ordinary shares exceeding 1% of our issued capital of ordinary shares;
- resolutions of our Board of Management mentioned in article 25.3.a of our Articles of Association, i.e. to exercise the right to vote on shares in KPN Telecom B.V. with respect to a proposal to dissolve KPN Telecom B.V., a legal merger or demerger (splitting up) of KPN Telecom B.V., acquisition of our own shares by KPN Telecom B.V., amendment of the Articles of Association of KPN Telecom B.V. relating to the competence of the General Meeting of Shareholders concerning any of the aforementioned three subjects and resolutions of our Board of Management to make capital expenditures which would reduce our shareholders' equity below 30% of our total capital according to our Consolidated Balance Sheet;
- resolutions of our Board of Management to pay all or part of the dividends declared in respect of our ordinary shares in shares rather than in cash;
- proposals of our Board of Management to charge distributions to holders of ordinary shares to the distributable part of Shareholders' equity; and
- resolutions of the General Meeting of Shareholders or of our Board of Management to: enter into a legal merger or demerger; dissolve the Company; amend our Articles of Association if the amendment concerns, among other things: our corporate purpose insofar as it relates to carrying out the concessions or licenses (Article 4); our authorized capital and the classes of shares in so far as it relates to the creation of a new class of shares or profit sharing certificates or other corporate rights which entitle the holder to the result and/or the capital of the Company or to the cancellation of the special share or the preference shares B (Article 5); distributions in shares or distributions charged to our reserves in so far as it relates to the approval of the holder of the special share (Article 36); the transfer of the special share (Article 17); any amendments which are prejudicial or detrimental to or incompatible with the statutory rights attached to the special share, such as the approval rights listed above; and Article 47, paragraph 2, in which these amendments requiring the approval of the holder of our special share are listed.

Since 1993, the State and we are party to a Heads of Agreement, subsequently amended by several agreements (in the form of letters). Under this agreement (and within the boundaries of the law), the State is required to co-ordinate with us any sale of its shareholding in our Company. The agreement also regulates the principles under which the State, as holder of the special share, must approve any issuance by us of (preference) shares. Lastly, the agreement requires the State to support any proposal to our General Meeting of Shareholder to authorize our Board of Management to issue new shares. An overview of these arrangements is available in the Dutch language on our website.

The State is a major customer and purchases our services on normal market terms and conditions. The State may further require us by law to provide certain services in connection with national security or the investigation of criminal offences. The services include tapping telephone lines and providing and maintaining a special secure network for emergencies.

### **9.3 The foundation for the protection of KPN (Stichting Bescherming KPN)**

The Foundation for the Protection of KPN (the 'Foundation') was organized to care for our interests and those of other interested parties, such as shareholders and employees, by, among other things, protecting us from influences that may threaten our continuity, independence and identity. The independent members of the Board of the Foundation are Professor S.C.J.J. Kortmann (Chairman), Professor P. Bouw, Mr. H. Zwarts MBA and Mr. J. den Hoed RA. The Chairman of our Supervisory Board, Mr. A.H.J. Risseuw, is also a member of the Board of the Foundation. 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 Appendix X to the Listing and Issuing Rules of the Stock Exchange of Amsterdam.

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 to acquire a number of Class B preference shares from us not exceeding the total issued amount of ordinary shares and the special share, minus one share and minus any shares already issued to the Foundation. Upon exercise of the option, only 25% of the nominal value of EUR 0.24 per Class B preference share needs to be paid. The remainder, amounting to EUR 0.18, is payable on call by resolution of our Board of Management, subject to the approval of the Supervisory Board. We anticipate not exercising our put option other than to temporarily protect our Company against a hostile takeover bid. We believe that the put option is a useful instrument to enable our management to carefully consider any such offer and potential alternatives. We intend to discuss the offer and potential alternatives with the general meeting of shareholders in order to fully comprehend the considerations of the shareholders. We also intend to submit the offer and/or the potential alternatives for approval to the general meeting as we believe that management alone should not decide on the future of our Company.

## **10. FINANCIAL INFORMATION**

### **10.1 Historical Financial Information**

This Prospectus incorporates by reference the publicly available consolidated audited financial statements of the Issuer for the three years ended 31st December, 2004 prepared in accordance with Dutch GAAP.

### **10.2 Financial Statements**

The Issuer prepares both own and consolidated financial statements, each of which are incorporated by reference in the 2004 Form 20-F in respect of the 2004 financial year.

### **10.3 Auditing of Historical Annual Financial Information**

As described under “General Information – Auditors” the auditors of the Issuer have audited the financial statements of the Issuer in accordance with Dutch GAAP for the financial years ended 31st December, 2002, 2003 and 2004 and have issued a report for each of those years without qualification.

### **10.4 Age of Latest Financial Information**

The most recent audited financial information is dated at 31st December, 2004.

### **10.5 Interim and Other Financial Information**

This Prospectus incorporates by reference the consolidated unaudited quarterly and semi-annual reports of the Issuer for the three and six months ended 31st March, 2005 and 30th June, 2005, respectively, prepared in accordance with IFRS.

### **10.6 International Financial Reporting Standards**

On 18th April, 2005 KPN announced that it has adopted International Financial Reporting Standards (‘IFRS’), including International Accounting Standards (‘IAS’) and interpretations issued by the International Accounting Standards Board (‘IA’), as its primary accounting basis for the year ending 31st December, 2005 and for each future financial period. KPN’s consolidated unaudited quarterly report for the three months ended 31st March, 2005 was prepared in accordance with IFRS. Some of the most significant differences between IFRS and Dutch GAAP are the following:

- employee benefits: Under IFRS, KPN is required to recognize the funded status of employee benefit obligations in its balance sheet. On the transition date, KPN had a significant deficit, which is recorded against equity in the IFRS opening balance sheet. As a result, pension charges in 2004 are lower compared to Dutch GAAP.
- fair value Property, Plant & Equipment: KPN elected to revalue specific fixed asset classes to their fair value in the IFRS opening balance sheet (as deemed costs). The related fixed assets mainly concern copper and fiber cables. This resulted in additional depreciation charges in the income statement.

- goodwill amortization: IFRS requires goodwill not to be amortized, but to be subject to an annual impairment review. Under Dutch GAAP, acquired goodwill was capitalised and amortized.
- revenue recognition: Under IFRS, KPN defers connection and installation revenues over the expected customer lives. The related costs continue to be expensed when incurred.
- borrowing costs: KPN elected not to capitalize borrowing costs under IFRS. Under Dutch GAAP, KPN capitalized borrowing costs on property, plant and equipment.
- joint venture accounting: Under IFRS, KPN elected to account for joint ventures using the equity method. Under Dutch GAAP, KPN consolidated joint ventures proportionally.
- presentation: Several reclassifications in the IFRS balance sheet and income statement were made compared to Dutch GAAP. Own work capitalized was presented as part of operating revenues under Dutch GAAP, whereas it was deducted from operating expenses under IFRS.
- taxes: On all above-mentioned adjustments, deferred taxes are recognized, if applicable.

As a result of the conversion to IFRS, equity as of 31st December, 2004 decreased by EUR 410 million. Profit for the year 2004 increased by EUR 246 million under IFRS. The conversion to IFRS has resulted in no significant impact on the cash flow from operations in the cash flow statement.

KPN adopted the IFRS standards on financial instruments as from 1st January, 2005. As a result, the opening equity as of that date decreased by another EUR 145 million.

For purposes of conversion to IFRS, KPN chose 1st January, 2004 as the transition date. In this connection, the SEC approved the use of one year of comparative financial information.

Since the IFRS financial statements for 2004 have not been audited, the figures set out in this section are subject to change.

## **10.7 Legal and Arbitration Proceedings**

We are involved in several governmental, legal or arbitration proceedings, most of which are primarily related to regulatory or other ordinary course of business issues. We do not expect these proceedings to result in liabilities that will have a significant effect on our financial position or profitability. 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 we describe our main pending proceedings.

### **SOBI**

On 10th July, 2001 a writ of summons was served upon us by one of our shareholders SOBI (Stichting Onderzoek Bedrijfsinformatie, or Foundation for the Research of Business Information). SOBI has filed a claim with the Enterprise Chamber (Ondernemingskamer) of Appeal that seeks the annulment of our annual financial statements for 2000 because it believes that the reporting was incorrect with respect to the transactions with NTT DoCoMo contained therein, in which NTT DoCoMo acquired 15% of KPN Mobile; the transactions with BellSouth, in which KPN Mobile acquired a 77.49% interest in E-Plus; and the valuation of goodwill and the valuation of the UMTS licenses acquired by KPN Mobile.

On 8th July, 2004 the Enterprise Chamber has ordered KPN to alter the 2000 annual accounts with respect to the classification of the gain related to the transaction with NTT DoCoMo in the Income Statement as well as to alter the explanatory notes in a number of instances.

This decision has no impact on the results for 2000. The Enterprise Chamber has given no directions in respect of the financial statements of KPN over subsequent years. On 8th October, 2004 KPN has lodged an appeal with the Supreme Court of the Netherlands ('cassatie') against the decision of the Enterprise Chamber. Pending the outcome of the appeal with the Supreme Court, the decision of the Enterprise Chamber does not yet come into effect. If the decision of the Enterprise Chamber is upheld KPN will have to formally prepare its financial statements for the year 2000 again in accordance with the directions given

by the Enterprise Chamber. These statements will then be submitted again to the general meeting of shareholders in order to be adopted.

KPN maintains that the NTT DoCoMo transaction was reported in the proper manner in the annual accounts for 2000, and that KPN correctly applied the appropriate valuation principles. The decision does not affect the KPN 2000 US GAAP accounts.

### **KPNQwest**

We are involved in a legal proceeding with a consortium of banks to which KPNQwest has transferred claims against us for a total amount of approximately EUR 21 million. The District Court of The Hague rejected the complaint nearly in full. The consortium appealed the decision.

On 9th January, 2004, KPN was named as a defendant in an amended class action complaint in an action pending in the United States District Court for the Southern District of New York brought by former shareholders of KPNQwest (the 'KPNQwest Securities Action'). The KPNQwest Securities Action originally was filed against a former officer of KPNQwest. The amended complaint added several additional defendants, including, among others, KPN and three current and former officers of KPN who had served on the Supervisory Board of KPNQwest. The amended complaint alleges that, from the time of its initial public offering in November 1999 through 24th April, 2002, KPNQwest overstated its reported revenues and profits by entering into capacity swap transactions with third parties, including Qwest and Global Crossing, and improperly accounting for those transactions. The amended complaint seeks to hold KPN liable both as a direct participant in the alleged fraud and as an alleged controlling person of KPNQwest based on its ownership of KPNQwest stock and ability to appoint certain members of the KPNQwest Supervisory Board. KPN was served with the amended complaint on 26th February, 2004.

### **Dealer commissions**

After an investigation into the reduction of subsidies to mobile handset retailers by the mobile phone operators in the Netherlands, including KPN Mobile, the Dutch Anti-trust Authority (NMa) concluded that all five mobile operators had coordinated a decrease of the commissions to their distributors and a decrease of the handset subsidy for prepaid subscriptions. On 30th December, 2002, NMa initially fined KPN Mobile for EUR 31.3 million. Upon objections by the mobile operators, NMa adjusted the fines on 27th September, 2004, resulting in a fine for KPN Mobile of EUR 12.63 million. All mobile operators appealed to this decision (before the Rotterdam District Court).

## **10.8 Significant Change in Financial or Trading Position**

Save as disclosed herein, there has been no significant change in the financial or trading position of the Issuer or the Issuer and its subsidiaries, taken as a whole, and there has been no material adverse change in the financial position or prospects of the Issuer, or the Issuer and its subsidiaries taken as a whole, since 31st December, 2004.

## 11. ADDITIONAL INFORMATION

### 11.1 Share Capital

#### Statement of Changes in Shareholders' Equity

Amounts in millions of euro except for shares and per-share information

	Number of subscribed shares	Par value per share (EUR)	Subscribed capital stock	Additional paid-in capital	Statutory and other restricted reserves	Other reserves (including net result for the period)	Total
Balance as of 1st January, 2002	2,254,147,806	0.24	541	15,039	705	(4,297)	11,988
Exchange rate differences on participating interests ..					26		26
Share issue .. .. .	234,700,000		56	1,197			1,253
Bonus shares .. .. .	2,149,071		1				1
Changes in retained earnings of participations and cumulative translation differences.. ..					(260)	260	–
Other changes <sup>(1)</sup> .. .. .				32	(11)	761	782
Profit or loss after taxes .. ..					(138)	(9,404)	(9,542)
Balance as of 31st December, 2002 .. .. .	2,490,996,877	0.24	598	16,268	322	(12,680)	4,508
Change in accounting principles .. .. .						(6)	(6)
Balance as of 1st January, 2003	2,490,996,877	0.24	598	16,268	322	(12,686)	4,502
Exchange rate differences on participating interests .. ..					(46)		(46)
Shares purchased for option plans .. .. .						(25)	(25)
Changes in retained earnings of participations and cumulative translation differences.. ..					(167)	167	–
Other changes <sup>(1)</sup> .. .. .					(12)	1	1
Profit or loss after taxes .. ..					(12)	2,743	2,731
Balance as of 31st December, 2003 .. .. .	2,490,996,877	0.24	598	16,268	97	(9,800)	7,163
Exchange rate differences on participating interests .. ..					(1)		(1)
Shares repurchased and cancelled <sup>(2)</sup> .. .. .	(161,596,876)		(39)	(961)			(1,000)
Shares repurchased and not yet cancelled <sup>(3)*</sup> .. .. .						(9)	(9)
Other changes in shares .. ..	(32)						
Shares repurchased for option plans <sup>(4)</sup> .. .. .						(33)	(33)
Dividends Paid <sup>5</sup> .. .. .						(796)	(796)
Changes in retained earnings of participations and cumulative translation differences.. ..					(12)	12	–
Other changes <sup>(1)</sup> .. .. .						(14)	(14)
Profit or loss after taxes .. ..						1,511	1,511
Balance as of 31st December, 2004 <sup>(5)*</sup> .. .. .	2,329,399,969	0.24	559	15,307	84	(9,129)	6,821

[..] Bracketed numbers refer to the related Notes to the Statement of Changes in Shareholders' Equity, which are an integral part of the 2004 consolidated financial statements which are incorporated by reference.

- (1) Other changes in 2004 relate mainly to the expected dividend tax charge, which was deducted from the other reserves relating to the purchase of own shares amounting to EUR –52 million, the repricing effect of options (EUR 9 million) and the exercise of options amounting to EUR 28 million. Other changes in 2003 include repricing effects of options (EUR 12 million) and the tax effect related to Vision Networks (EUR –11 million). Other changes in 2002 related mainly to the consolidation effect of Vision Networks amounting to EUR 745 million;
- (2) On 28th October, 2004, we cancelled 80,627,065 ordinary shares we bought for an average price of EUR 6.20 per share under our initial share repurchase program of EUR 500 million, which was announced on 11th March, 2004. On 16th December, 2004, we cancelled another 80,969,811 ordinary shares we bought with an average share price of EUR 6.18 under our second repurchase program of EUR 1 billion, which was announced on 28th June, 2004;
- (3) As of 31st December, 2004, we repurchased and settled 1,289,494 shares with an average share price of EUR 7.04 under our second repurchase program of EUR 1 billion;
- (4) During 2004 the company purchased 5,499,505 ordinary shares for option plans (treasury shares) with an average share price of EUR 6.04.
- (5) As at 30th June, 2005, the number of our subscribed shares was 2,332,400,000 and the amount of our subscribed capital stock was 559,776,000.
- (\*) Since 31st December, 2004, we completed our €985 million share repurchase programme in which we repurchased 146 million shares and our €250 million share repurchase programme in which we repurchased 33 million shares. Since December 2004, 181 million shares have been repurchased which will be cancelled before the end of 2005. Following the merger of SNT, KPN Telecommerce B.V. and the Issuer, the number of outstanding ordinary shares increased by 3,000,031. Our shareholders also approved a 2004 dividend of €0.35 per ordinary share in April 2005. In August 2005, an interim dividend for the 2005 financial year of €0.13 per ordinary share was declared. See "Recent Developments" above.

## **11.2 Rights attaching the Issuer's shares**

The Issuer's authorised capital stock is divided into ordinary shares of EUR 0.24 each, one special share of EUR 0.48 and Class B preferred shares of EUR 0.24 each. The State of the Netherlands holds the special share. The ordinary shares and Class B preferred shares carry the right to cast one vote each; the special share carries the right to cast two votes. The ordinary shares are registered or payable to bearer. Shareholders may request the Company to convert their bearer shares into ordinary registered shares, and vice versa. The special share is in registered form. For a description of the rights attached to the preferred shares, refer to "Foundation for the Protection of KPN" set out in the 2004 Form 20-F.

## **11.3 Articles of Association**

Pursuant to Article 4 of the Issuer's Articles of Association, its objects and purposes are:

- (a) to participate in and to manage other enterprises and companies, including companies that operate in the field of the transmitting, storing and converting of information, as well as to manage and dispose of information;
- (b) to permit its subsidiaries to carry out the concessions or licenses that are granted by the government in the field mentioned under a;
- (c) to manage and finance subsidiaries, group companies, dependent companies and participations, including to guarantee the debts of those companies and participations, and further to engage in any activity which may be related or conducive to the objects set out above.

## **12. MATERIAL CONTRACTS**

As of the date of this Prospectus, we are not party to any contracts (not entered into in the ordinary course of business) that are considered material to our results, financial condition or operations.

## **13. THIRD PARTY INFORMATION AND STATEMENT BY EXPERTS AND DECLARATION OF ANY INTEREST**

### **13.1 Statement of Expert**

The auditor's opinion is included on page 112 of the 2004 Annual Report and Form 20-F which is incorporated by reference.

## BOOK-ENTRY CLEARANCE SYSTEMS

*The information set out below is subject to any change in or reinterpretation of the rules, regulations and procedures of DTC, Euroclear or Clearstream, Luxembourg (together, the “Clearing Systems”) currently in effect. The information in this section concerning the Clearing Systems has been obtained from sources that the Issuer believes to be reliable, but neither the Issuer nor any Dealer takes any responsibility for the accuracy thereof. Investors wishing to use the facilities of any of the Clearing Systems are advised to confirm the continued applicability of the rules, regulations and procedures of the relevant Clearing System. Neither the Issuer nor any other party to the Agency Agreement will have any responsibility or liability for any aspect of the records relating to, or payments made on account of, beneficial ownership interests in the Notes held through the facilities of any Clearing System or for maintaining, supervising or reviewing any records relating to such beneficial ownership interests.*

### **Book-entry Systems**

#### *DTC*

DTC has advised the Issuer that it is a limited purpose trust company organised under the New York Banking Law, a “banking organisation” within the meaning of the New York Banking Law, a “clearing corporation” within the meaning of the New York Uniform Commercial Code and a “clearing agency” registered pursuant to Section 17A of the Exchange Act. DTC holds securities that its participants (“Participants”) deposit with DTC. DTC also facilitates the settlement among Participants of securities transactions, such as transfers and pledges, in deposited securities through electronic computerised book-entry changes in Participants’ accounts, thereby eliminating the need for physical movement of securities certificates. Direct Participants include securities brokers and dealers, banks, trust companies, clearing corporations and certain other organisations. DTC is owned by a number of its Direct Participants and by the New York Stock Exchange, Inc., the American Stock Exchange, Inc. and the National Association of Securities Dealers, Inc. Access to the DTC System is also available to others such as securities brokers and dealers, banks and trust companies that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly (“Indirect Participants”).

Under the rules, regulations and procedures creating and affecting DTC and its operations (the “Rules”), DTC makes book-entry transfers of Registered Notes among Direct Participants on whose behalf it acts with respect to Notes accepted into DTC’s book-entry settlement system (“DTC Notes”) as described below and receives and transmits distributions of principal and interest on DTC Notes. The Rules are on file with the Securities and Exchange Commission. Direct Participants and Indirect Participants with which beneficial owners of DTC Notes (“Owners”) have accounts with respect to the DTC Notes similarly are required to make book-entry transfers and receive and transmit such payments on behalf of their respective Owners. Accordingly, although Owners who hold DTC Notes through Direct Participants or Indirect Participants will not possess Registered Notes, the Rules, by virtue of the requirements described above, provide a mechanism by which Direct Participants will receive payments and will be able to transfer their interest in respect of the DTC Notes.

Purchases of DTC Notes under the DTC system must be made by or through Direct Participants, which will receive a credit for the DTC Notes on DTC’s records. The ownership interest of each actual purchaser of each DTC Note (“Beneficial Owner”) is in turn to be recorded on the Direct and Indirect Participant’s records. Beneficial Owners will not receive written confirmation from DTC of their purchase, but Beneficial Owners are expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the DTC Notes are to be accomplished by entries made on the books of Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in DTC Notes, except in the event that use of the book-entry system for the DTC Notes is discontinued.

To facilitate subsequent transfers, all DTC Notes deposited by Participants with DTC are registered in the name of DTC’s partnership nominee, Cede & Co. The deposit of DTC Notes with DTC and their registration in the name of Cede & Co. effect no change in beneficial ownership. DTC has no knowledge of the actual

Beneficial Owners of the DTC Notes; DTC's records reflect only the identity of the Direct Participants to whose accounts such DTC Notes are credited, which may or may not be the Beneficial Owners. The Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time.

Redemption notices shall be sent to Cede & Co. If less than all of the DTC Notes within an issue are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such issue to be redeemed.

Neither DTC nor Cede & Co. will consent or vote with respect to DTC Notes. Under its usual procedures, DTC mails an Omnibus Proxy to the Issuer as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts the DTC Notes are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Principal and interest payments on the DTC Notes will be made to DTC. DTC's practice is to credit Direct Participants' accounts on the due date for payment in accordance with their respective holdings shown on DTC's records unless DTC has reason to believe that it will not receive payment on the due date. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name", and will be the responsibility of such Participant and not of DTC or the Issuer, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal and interest to DTC is the responsibility of the Issuer, disbursement of such payments to Direct Participants is the responsibility of DTC, and disbursement of such payments to the Beneficial Owners is the responsibility of Direct and Indirect Participants.

Under certain circumstances, including if there is an Event of Default under the Notes, DTC will exchange the DTC Notes for definitive Registered Notes, which it will distribute to its Participants in accordance with their proportionate entitlements and which, if representing interests in a Rule 144A Global Note, will be legended as set forth under "Subscription and Sale and Transfer and Selling Restrictions".

Since DTC may only act on behalf of Direct Participants, who in turn act on behalf of Indirect Participants, any Owner desiring to pledge DTC Notes to persons or entities that do not participate in DTC, or otherwise take actions with respect to such DTC Notes, will be required to withdraw its Registered Notes from DTC as described below.

#### *Euroclear and Clearstream, Luxembourg*

Euroclear and Clearstream, Luxembourg each holds securities for its customers and facilitates the clearance and settlement of securities transactions by electronic book-entry transfer between their respective account holders. Euroclear and Clearstream, Luxembourg provide various services including safekeeping, administration, clearance and settlement of internationally traded securities and securities lending and borrowing. Euroclear and Clearstream, Luxembourg also deal with domestic securities markets in several countries through established depository and custodial relationships. Euroclear and Clearstream, Luxembourg have established an electronic bridge between their two systems across which their respective participants may settle trades with each other.

Euroclear and Clearstream, Luxembourg customers are world-wide financial institutions, including underwriters, securities brokers and dealers, banks, trust companies and clearing corporations. Indirect access to Euroclear and Clearstream, Luxembourg is available to other institutions that clear through or maintain a custodial relationship with an account holder of either system.

## **Book-entry Ownership of and Payments in respect of DTC Notes**

The Issuer may apply to DTC in order to have any Tranche of Notes represented by a Registered Global Note accepted in its book-entry settlement system. Upon the issue of any such Registered Global Note, DTC or its custodian will credit, on its internal book-entry system, the respective nominal amounts of the individual beneficial interests represented by such Registered Global Note to the accounts of persons who have accounts with DTC. Such accounts initially will be designated by or on behalf of the relevant Dealer. Ownership of beneficial interests in such a Registered Global Note will be limited to Direct Participants or Indirect Participants including, in the case of any Regulation S Global Note, the respective depositaries of Euroclear and Clearstream, Luxembourg. Ownership of beneficial interests in such a Registered Global Note accepted by DTC will be shown on, and the transfer of such ownership will be effected only through, records maintained by DTC or its nominee (with respect to the interests of Direct Participants) and the records of Direct Participants (with respect to interests of Indirect Participants).

Payments in U.S. dollars of principal and interest in respect of a Registered Global Note accepted by DTC will be made to the order of DTC or its nominee as the registered holder of such Note. In the case of any payment in a currency other than U.S. dollars, payment will be made to the Exchange Agent on behalf of DTC or its nominee and the Exchange Agent will (in accordance with instructions received by it) remit all or a portion of such payment for credit directly to the beneficial holders of interests in the Registered Global Note in the currency in which such payment was made and/or cause all or a portion of such payment to be converted into U.S. dollars and credited to the applicable Participants' account.

The Issuer expects DTC to credit accounts of Direct Participants on the applicable payment date in accordance with their respective holdings as shown in the records of DTC unless DTC has reason to believe that it will not receive payment on such payment date. The Issuer also expects that payments by Participants to beneficial owners of Notes will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers, and will be the responsibility of such Participant and not the responsibility of DTC, the Principal Paying Agent, the Registrar or the Issuer. Payment of principal, premium, if any, and interest, if any, on Notes to DTC is the responsibility of the Issuer.

## **Transfers of Notes Represented by Registered Global Notes**

Transfers of any interests in Notes represented by a Registered Global Note within DTC, Euroclear and Clearstream, Luxembourg will be effected in accordance with the customary rules and operating procedures of the relevant clearing system. The laws in some States within the United States require that certain persons take physical delivery of securities in definitive form. Consequently, the ability to transfer Notes represented by a Registered Global Note to such persons may depend upon the ability to exchange such Notes for Notes in definitive form. Similarly, because DTC can only act on behalf of Direct Participants in the DTC system who in turn act on behalf of Indirect Participants, the ability of a person having an interest in Notes represented by a Registered Global Note accepted by DTC to pledge such Notes to persons or entities that do not participate in the DTC system or otherwise to take action in respect of such Notes may depend upon the ability to exchange such Notes for Notes in definitive form. The ability of any holder of Notes represented by a Registered Global Note accepted by DTC to resell, pledge or otherwise transfer such Notes may be impaired if the proposed transferee of such Notes is not eligible to hold such Notes through a direct or indirect participant in the DTC system.

Subject to compliance with the transfer restrictions applicable to the Registered Notes described under "Subscription and Sale and Transfer Selling Restrictions", cross-market transfers between DTC, on the one hand, and directly or indirectly through Clearstream, Luxembourg or Euroclear accountholders, on the other, will be effected by the relevant clearing system in accordance with its rules and through action taken by the Registrar, the Principal Paying Agent and any custodian ("Custodian") with whom the relevant Registered Global Notes have been deposited.

On or after the Issue Date for any Series, transfers of Notes of such Series between accountholders in Clearstream, Luxembourg and Euroclear and transfers of Notes of such Series between participants in DTC will generally have a settlement date three business days after the trade date (T+3). The customary arrangements for delivery versus payment will apply to such transfers.

Cross-market transfers between accountholders in Clearstream, Luxembourg or Euroclear and DTC participants will need to have an agreed settlement date between the parties to such transfer. Because there is no direct link between DTC, on the one hand, and Clearstream, Luxembourg and Euroclear, on the other, transfers of interests in the relevant Registered Global Notes will be effected through the Registrar, the Principal Paying Agent and the Custodian receiving instructions (and, where appropriate, certification) from the transferor and arranging for delivery of the interests being transferred to the credit of the designated account for the transferee. In the case of cross-market transfers, settlement between Euroclear or Clearstream, Luxembourg accountholders and DTC participants cannot be made on a delivery versus payment basis. The securities will be delivered on a free delivery basis and arrangements for payment must be made separately.

DTC, Clearstream, Luxembourg and Euroclear have each published rules and operating procedures designed to facilitate transfers of beneficial interests in Registered Global Notes among participants and accountholders of DTC, Clearstream, Luxembourg and Euroclear. However, they are under no obligation to perform or continue to perform such procedures, and such procedures may be discontinued or changed at any time. None of the Issuer, the Agents or any Dealer will be responsible for any performance by DTC, Clearstream, Luxembourg or Euroclear or their respective direct or indirect participants or accountholders of their respective obligations under the rules and procedures governing their operations and none of them will have any liability for any aspect of the records relating to or payments made on account of beneficial interests in the Notes represented by Registered Global Notes or for maintaining, supervising or reviewing any records relating to such beneficial interests.

## TAXATION

### A. United Kingdom taxation

*The following applies only to persons who are the beneficial owners of Notes, is of a general nature based on current United Kingdom law and Inland Revenue practice and is not intended to be exhaustive, dealing only with withholding tax and information reporting regarding interest. Some aspects do not apply to certain classes of person (such as dealers and persons connected with the Issuer) to whom special rules may apply. Prospective Noteholders who are in any doubt as to their tax position or who may be subject to tax in a jurisdiction other than the United Kingdom should seek their own professional advice.*

#### Interest on the Notes

##### 1. Payment of interest on the Notes

Payments of interest on the Notes may be made without withholding on account of United Kingdom income tax.

However, Noteholders who are individuals may wish to note that the Inland Revenue has power to obtain information (including the name and address of the beneficial owner of the interest) from any person in the United Kingdom who either pays interest to or receives interest for the benefit of an individual, or who either pays amounts payable on the redemption of Notes that constitute relevant discounted securities as defined in Schedule 13 to the Finance Act 1996 to or receives such amounts for the benefit of an individual. Information so obtained may, in certain circumstances, be exchanged by the Inland Revenue with the tax authorities of other jurisdictions.

##### 2. EU Savings Directive

Under Council Directive 2003/48/EC on the taxation of savings income, Member States are required, from 1st July, 2005, to provide to the tax authorities of another Member State details of payments of interest (or similar income) paid by a person within its jurisdiction to an individual resident in that other Member State. However, for a transitional period, Belgium, Luxembourg and Austria are instead required (unless during that period they elect otherwise) to operate a withholding system in relation to such payments (the ending of such transitional period being dependent upon the conclusion of certain other agreements relating to information exchange with certain other countries). A number of non-EU countries and territories including Switzerland have agreed to adopt similar measures (a withholding system in the case of Switzerland) with effect from the same date.

### B. Netherlands taxation

#### General

*The following summary describes the principal Netherlands tax consequences of the acquisition, holding, redemption and disposal of Notes, which term, for the purpose of this summary, includes Coupons, Receipts and Talons. This summary does not purport to be a comprehensive description of all Netherlands tax considerations that may be relevant to a decision to acquire, hold and dispose of the Notes. Each prospective Noteholder should consult a professional adviser with respect to the tax consequences of an investment in the Notes. The discussion of certain Netherlands taxes set forth below is included for general information purposes only.*

*This summary is based on The Netherlands tax legislation, published case law, treaties, rules, regulations and similar documentation, in force in The Netherlands as of the date of this Prospectus, without prejudice to any amendments introduced at a later date and implemented with retroactive effect.*

*This summary does not address The Netherlands tax consequences of a Noteholder who holds a substantial interest (aanmerkelijk belang) in the Issuer, within the meaning of Section 4.3 of the Income Tax Act 2001. Generally speaking, a Noteholder holds a substantial interest in the Issuer, if such Noteholder, alone or together with his or her partner (statutory defined term) or certain other related persons, directly or*

indirectly, holds (i) an interest of 5 per cent. or more of the total issued capital of the Issuer or of 5 per cent. or more of the issued capital of a certain class of shares of the Issuer; (ii) rights to acquire, directly or indirectly, such interest or (iii) certain profit sharing rights in the Issuer. For the purpose of this summary, the term Issuer includes the Substituted Debtor. The tax consequences of a possible exchange or conversion of the Notes into shares or other equity instruments issued by the Issuer, the Substituted Debtor or an entity related to the Issuer are not discussed in this summary.

## **Withholding Tax**

No Netherlands withholding tax is due upon payments on the Notes, provided that the Notes do not in fact have the function of equity of the Issuer within the meaning of Article 10(1)(d) of the Corporate Income Tax Act 1969.

## **Corporate Income Tax and Individual Income Tax**

### *Residents of The Netherlands*

If the Noteholder is subject to Netherlands corporate income tax and the Notes are attributable to its (deemed) business assets, income derived from the Notes and gains realised upon the redemption and disposal of the Notes are taxable.

If the Noteholder is an individual, resident or deemed to be resident of the Netherlands for Netherlands tax purposes (including an individual Noteholder who has opted to be taxed as a resident of The Netherlands), the income derived from the Notes and the gains realised upon the redemption and disposal of the Notes are taxable at the progressive rates of the Income Tax Act 2001, if:

- (i) the Noteholder has an enterprise, or an interest in an enterprise, to which enterprise the Notes are attributable; or
- (ii) such income or gains qualify as income from miscellaneous activities (*belastbaar resultaat uit overige werkzaamheden*) in The Netherlands within the meaning of Section 3.4 of the Income Tax Act 2001, which include the performance of activities with respect to the Notes that exceed “regular, active portfolio management” (*normaal, actief vermogensbeheer*).

If the above-mentioned conditions (i) or (ii) do not apply to the individual Noteholder, the actual income derived from the Notes and the actual gains realised with respect to the Notes will not be taxable. Instead, such Noteholder will be taxed at a flat rate of 30 per cent. on deemed income from “savings and investments” (*belastbaar resultaat uit sparen en beleggen*) within the meaning of Section 5.1 of the Income Tax Act 2001. This deemed income amounts to 4 per cent. of the average of the individual’s “yield basis” (*rendementsgrondslag*) within the meaning of article 5.3 of the Income Tax Act 2001 at the beginning of the calendar year and the individual’s yield basis at the end of the calendar year, insofar the average exceeds a certain threshold. The fair market value of the Notes will be included in the individual’s yield basis.

### *Non-residents of The Netherlands*

A Noteholder that is not a resident nor deemed to be a resident of The Netherlands for Netherlands tax purposes is not taxable in respect of income derived from the Notes and gains realised upon the redemption and disposal of the Notes, unless:

- (i) the Noteholder has an enterprise or an interest in an enterprise that is, in whole or in part, carried on through a permanent establishment or a permanent representative in The Netherlands to which permanent establishment or permanent representative the Notes are attributable; or
- (ii) the Noteholder is an individual and such income or gains qualify as income from miscellaneous activities (*belastbaar resultaat uit overige werkzaamheden*) in The Netherlands within the meaning of Section 3.4 of the Income Tax Act 2001, which include the performance of activities in The Netherlands with respect to the Notes that exceed “regular, active portfolio management” (*normaal, actief vermogensbeheer*).

## **Gift and Inheritance Taxes**

### *Residents of The Netherlands*

Generally, gift and inheritance taxes will be due in The Netherlands in respect of the acquisition of the Notes by way of a gift by, or on the death of, a Noteholder who is a resident or deemed to be a resident of The Netherlands for the purposes of Netherlands gift and inheritance tax at the time of the gift or his or her death.

An individual of The Netherlands nationality is deemed to be a resident of The Netherlands for the purposes of The Netherlands gift and inheritance tax, if he or she has been resident in The Netherlands during the ten years preceding the gift or his or her death. An individual of any other nationality is deemed to be a resident of The Netherlands for the purposes of The Netherlands gift and inheritance tax only if he or she has been residing in The Netherlands at any time during the twelve months preceding the time of the gift. The same twelve-month rule may apply to entities that have transferred their seat of residence out of the Netherlands.

### *Non-residents of The Netherlands*

No gift or inheritance taxes will arise in The Netherlands in respect of the acquisition of the Notes by way of gift by, or as a result of the death of, a Noteholder who is neither a resident nor deemed to be a resident of The Netherlands for the purposes of The Netherlands gift and inheritance tax, unless:

- (i) such Noteholder at the time of the gift has or at the time of his or her death had an enterprise or an interest in an enterprise, that is, in whole or in part, carried on through a permanent establishment or a permanent representative in the Netherlands to which Netherlands permanent establishment or permanent representative the Notes are attributable; or
- (ii) in the case of a gift of the Notes by an individual who at the date of the gift was neither a resident nor deemed to be a resident of The Netherlands, such individual dies within 180 days after the date of the gift, while at the time of his or her death being a resident or deemed to be a resident of The Netherlands.

### *Treaties*

Treaties may limit the Dutch sovereignty to levy gift and inheritance tax.

## **Other Taxes and Duties**

No Netherlands capital duty, registration tax, customs duty, transfer tax, stamp duty or any other similar documentary tax or duty, will be due in The Netherlands by a Noteholder in respect of or in connection with the subscription, issue, placement, allotment or delivery of the Notes.

## **EU Savings Directive**

Please refer to the equivalent section under “*United Kingdom Taxation*” above, which is also applicable to The Netherlands.

## **C. Certain U.S. Federal Income Tax Considerations**

*The following is a general summary of certain United States Federal income tax consequences of the purchase, ownership and disposition of the Notes. This summary is based upon the Internal Revenue Code of 1986, as amended (the “Code”), applicable income tax regulations, published rulings, administrative pronouncements and court decisions, as of the date hereof, all of which are subject to change or differing interpretations at any time and possibly with retroactive effect. This summary does not discuss all aspects of United States Federal income taxation that may be relevant to a particular investor in light of the investor’s particular circumstances. In particular, this summary does not apply to investors who own, directly or through attribution, 10 per cent. or more of the Company’s outstanding voting share capital, or to certain types of investors subject to special treatment under the United States Federal income tax laws (such as tax-exempt organisations (including qualified pension plans), banks, insurance companies, regulated investment companies, brokers, dealers, foreign persons and entities, persons holding Notes as part of a “hedging” or*

*“conversion” transaction or as a position in a “straddle”, or persons whose functional currency is not the United States dollar). In addition, this summary does not consider the effect of any foreign, state, local or other tax laws, or any other United States tax consequences other than income tax consequences, that may be applicable to particular investors. This summary also assumes that the Notes are held as capital assets. EACH PROSPECTIVE PURCHASER OF THE NOTES SHOULD CONSULT ITS OWN TAX ADVISORS CONCERNING THE APPLICATION OF UNITED STATES FEDERAL INCOME TAX LAWS TO ITS PARTICULAR SITUATION AS WELL AS ANY CONSEQUENCES OF THE PURCHASE, OWNERSHIP AND DISPOSITION OF THE NOTES ARISING UNDER THE LAWS OF ANY OTHER TAXING JURISDICTION.*

To ensure compliance with U.S. Treasury Department regulations, we advise you that any tax discussion herein was not written and is not intended to be used and cannot be used by any taxpayer for purposes of avoiding U.S. Federal income tax penalties that may be imposed on the taxpayer. Any such tax discussion was written to support the promotion or marketing of the Notes to be issued pursuant to this Prospectus. Each taxpayer should seek advice based on the taxpayer's particular circumstances from an independent tax advisor.

Notwithstanding any provision herein and the otherwise confidential nature of this Prospectus and its contents, and effective from the date of commencement of discussions concerning any offering of Notes under this Programme, each party hereto (and each employee, representative, or other agent of such party) may disclose to any and all persons, without limitation of any kind, the tax treatment and tax structure of the transactions described and contemplated herein (the “Transactions”) and all materials of any kind (including opinions or other tax analyses) that are provided to it relating to such tax treatment and tax structure, except to the extent that any such disclosure could reasonably be expected to cause Notes offered under this Programme not to be in compliance with securities laws. In addition, no person may disclose the name of or identifying information with respect to any party identified herein or other non-public business or financial information that is unrelated to the tax treatment or tax structure of the Transactions without the prior consent of the Issuers. For purposes of this paragraph, the tax treatment of the Transactions is the purported or claimed U.S. Federal income tax treatment of the Transactions, and the tax structure of the Transactions is any fact that may be relevant to understanding the purported or claimed U.S. Federal income tax treatment of the Transactions.

The following summary deals only with holders who purchase Notes at original issuance and is limited to a general discussion of the tax consequences of the purchase, ownership and disposition of Notes. The Final Terms for each series of Notes will describe additional tax consequences, if any, that relate to the specific Notes to be issued. Accordingly, this discussion should be read only in connection with the discussion, if any, of U.S. Federal income tax considerations contained in the Final Terms to which investors are referred and does not, by itself, necessarily discuss all of the material U.S. Federal income tax issues of a particular series of Notes.

This summary deals only with holders who purchase Notes in this offering at the “issue price” (which will be the price at which a substantial amount of the Notes is sold to persons other than bond houses, brokers or similar persons acting in the capacity of underwriters, agents or shareholders). In addition, this summary deals only with Notes that are due to mature 20 years or less from the date on which they are issued.

As used herein, the term “U.S. Holder” means a beneficial owner of a Note that is for U.S. Federal income tax purposes: (i) a citizen or resident of the United States; (ii) a corporation created or organised in or under the laws of the United States or any state thereof (including the District of Columbia); (iii) an estate the income of which is subject to U.S. Federal income taxation regardless of its source; (iv) a trust the administration of which is subject to the primary supervision of a court in the United States and with respect to which one or more U.S. persons have the authority to control all substantial decisions; or (v) any other person whose income or gain in respect of such Note is effectively connected with the conduct of a United States trade or business. If a partnership holds Notes, the consequences to a partner will generally depend upon the status of the partner and upon the activities of the partnership. A partner in a partnership holding Notes should consult its own tax advisor.

A “Non-U.S. Holder” means a beneficial owner other than a U.S. Holder.

## Payments of Interest and Discount on the Notes

### *Stated Interest*

Except as described below, the amount of any stated interest payments on a Note will be taxable to a U.S. Holder as ordinary interest income in accordance with such U.S. Holder's method of accounting for U.S. Federal income tax purposes. If an interest payment is denominated in or determined by reference to a "Foreign Currency" (a currency other than the U.S. dollar), then special rules, described below under "Foreign Currency Notes" apply.

### *Original Issue Discount*

If a U.S. Holder holds Notes which have original issue discount ("OID") and which have a maturity of more than one year from their date of issue, such U.S. Holder will generally be required to recognise such OID as ordinary interest income under a constant yield method in advance of the receipt of cash payments to which such income is attributable, regardless of the U.S. Holder's method of accounting. Special rules apply to OID on a Note that is denominated in Foreign Currency. See "Foreign Currency Notes".

A Note has OID to the extent that the Note's "stated redemption price at maturity" exceeds its "issue price," but only if such excess equals or exceeds a specified minimum amount (generally, an amount equal to one quarter of one per cent. of the Note's stated redemption price at maturity multiplied by the number of complete years to its maturity). The stated redemption price at maturity of a Note generally is the sum of all payments provided by the Note other than payments of "qualified stated interest". The term "qualified stated interest" generally means stated interest that is unconditionally payable in cash or property (other than debt instruments, of the issuer) at least annually at a single fixed rate (or at certain floating rates) that appropriately takes into account the length of the interval between stated interest payments. The issue price of a Note is the first price at which a substantial amount of such issue of Notes has been sold (ignoring sales to bond houses, brokers, or similar persons or organisations acting in the capacity of underwriters, agents, or wholesalers).

In general, if the excess of a Note's stated redemption price at maturity over its issue price is less than the specified minimum amount, then such excess constitutes "*de minimis* OID". Unless the election described below under "Election to Treat All Interest as OID" is made, such a Note will not be treated as issued with OID (in which case the following paragraphs under "Original Issue Discount" will not apply) and a U.S. Holder of such a Note will recognise capital gain with respect to such *de minimis* OID as stated principal payments on the Note are made. The amount of such gain with respect to each such payment will equal the product of the total amount of the Note's *de minimis* OID and a fraction, the numerator of which is the amount of the principal payment and the denominator of which is the stated principal amount of the Note.

Except as described below with respect to Short Term Notes (defined herein), the amount of OID that a U.S. Holder will be required to include in income in a taxable year will be determined by allocating to each day of the taxable year for which the U.S. Holder holds the Note the pro rata daily portions of OID attributable to the "accrual period." An accrual period may be of any length selected by the U.S. Holder and the accrual periods may vary in length over the term of the Note as long as (i) each accrual period is no longer than one year, and (ii) each scheduled payment of principal or interest occurs either on the final day of an accrual period or on the first day of an accrual period. The amount of OID allocable to each accrual period generally will equal the product of (i) the Note's "adjusted issue price" at the beginning of such accrual period and (ii) its yield to maturity (determined on the basis of compounding at the close of each accrual period and appropriately adjusted to take into account the length of the particular accrual period), less the amount of any qualified stated interest payments allocable to such accrual period. The adjusted issue price of a Note at the beginning of the first accrual period is the issue price. Thereafter, the adjusted issue price of a Note is the sum of the issue price plus the amount of OID previously includable in the gross income of the holder reduced by the amount of any payment previously made on the Note, other than payments of "qualified stated interest". Thus, under these rules, a U.S. Holder will generally have to include in income increasingly greater amounts of OID over the life of the Note. Special rules apply for calculating OID in short initial or final accrual periods.

If the Issuer has an unconditional option to redeem or prepay a Note before the Note's stated maturity, such option will be presumed to be exercised if, by utilizing any date on which such Note may be redeemed or repurchased as the maturity date and the amount payable on such date in accordance with the terms of the Note (the "redemption price") as the stated redemption price at maturity, the yield on the Note would be lower than its yield to stated maturity and the yield to maturity of the Note will be determined based on this earlier maturity date. If such option is in fact exercised or not exercised contrary to the presumption made (*i.e.*, there is a "change in circumstances"), then the Note would be treated, solely for OID purposes, as if it were retired and reissued on the date of the change in circumstances for an amount equal to the Note's adjusted issue price on that date.

#### *Floating Rate Notes*

Floating Rate Notes will be subject to special rules. Generally, if a Floating Rate Note qualifies as a "variable rate debt instrument" (as defined in applicable Treasury Regulations) then (i) all stated interest with respect to such Floating Rate Note will be qualified stated interest and hence included in a U.S. Holder's income in accordance with such U.S. Holder's normal method of accounting for U.S. Federal income tax purposes, and (ii) the amount of OID, if any, will be determined under the general OID rules (as described above under "Original Issue Discount") by assuming that the variable rate is a fixed rate equal, in general, to the value, as of the issue date, of the floating rate.

If any of the Floating Rate Notes do not qualify as "variable rate debt instruments," such Floating Rate Notes will be classified as contingent payment debt instruments and will be subject to special rules for calculating the accrual of stated interest and OID.

Any special considerations with respect to the tax consequences of holding a Floating Rate Note will be provided in the applicable Final Terms.

#### *Index Linked Notes*

Special U.S. Federal income tax rules apply with respect to Index Linked Notes. If any Index Linked Notes are issued, information concerning the United States Federal income tax consequences of such Notes to U.S. Holders will be provided in the applicable Final Terms.

#### *Short Term Notes*

Generally, an accrual basis U.S. Holder of "Short Term Notes" (*i.e.*, Notes having a fixed maturity date not more than one year from the date of issue) is required to accrue OID on Short Term Notes on either a straight-line basis or, at the election of the U.S. Holder, under the constant yield method (based on daily compounding). An individual or other cash basis U.S. Holder of a Short Term Note is generally not required to accrue OID for U.S. Federal income tax purposes unless it elects to do so.

Any U.S. Holder of a Short Term Note can elect to apply the rules in the preceding paragraph taking into account the amount of "acquisition discount", if any, with respect to the Note (rather than the OID with respect to such Note). Acquisition discount is the excess of the stated redemption price at maturity of the Short Term Note over the U.S. Holder's purchase price (and hence may differ from the amount of OID if such U.S. Holder's basis is not equal to the issue price of the Note). Acquisition discount will be treated as accruing on a ratable basis, or, at the election of the U.S. Holder, on a constant yield basis.

For purposes of determining the amount of OID subject to these rules, applicable Treasury Regulations provide that, unlike the rules applicable to the determination of OID with respect to Notes which are not Short Term Notes, no interest payments on a Short Term Note will be qualified stated interest. Consequently, such interest payments are included in the Short Term Note's stated redemption price at maturity and therefore may give rise to OID (or acquisition discount) even if the Short Term Notes are not actually issued at a discount. U.S. Holders should consult their own tax advisors as to the application of these rules.

### *Amortisable Bond Premium*

A U.S. Holder that purchases a Note for an amount in excess of the sum of all amounts, other than qualified stated interest, payable on the Note after the purchase date will be considered to have purchased the Note at a premium (“bond premium”) and will not be required to include any OID in income with respect to such Note. A U.S. Holder generally may elect to amortise the premium over the remaining term of the Note under a constant yield method. For any Floating Rate Note or Index Linked Note that is a “variable rate debt instrument” under applicable income tax regulations, that method is implemented by constructing an “equivalent fixed rate instrument”, as provided in applicable Treasury Regulations. The amount amortised in any year reduces both the U.S. Holder’s adjusted basis in the Note and interest income from the Note. Any excess bond premium allocable to an accrual period is deductible by the holder for that accrual period. The amount deductible, however, is limited by the amount of the holder’s prior income inclusions on the instrument, and any excess is carried forward to the next accrual period. In addition, in the case of instruments that have alternative payment schedules that are predicated on the unilateral exercise of an option by the issuer or the holder, the amount of bond premium that is amortisable in an accrual period is calculated by assuming that both the issuer and the holder will exercise or not exercise options in a manner that maximises the holder’s yield. Thus, a holder may be required to amortise bond premium by reference to the stated maturity, even if it appears likely that the Note will be called. The Treasury Regulations also contain rules applicable if such contingency occurs or fails to occur contrary to the assumption utilised.

U.S. Holders not making an election to amortise bond premium are not required to reduce the adjusted basis of their Notes and consequently may recognise less gain or more loss upon their disposition. The election to amortise bond premium, once made, applies to all debt instruments held or subsequently acquired by the electing U.S. Holder on or after the first day of the taxable year to which the election applies and may not be revoked without the consent of the IRS. Holders should consult their own tax advisors concerning the consequences, means and advisability of making this election.

### *Election to Treat All Interest as OID*

Subject to certain limitations, a U.S. Holder of a debt instrument generally may elect to treat all interest that accrues on the instrument as OID. Interest for this purpose includes stated interest not previously included in income, OID (including any *de minimis* OID), and acquisition discount, adjusted for amortisable bond premium and acquisition premium. If a U.S. Holder makes this election for a Note with amortisable bond premium, the election is treated also as an election under the amortisable bond premium provisions, described above, and the electing U.S. Holder will be required to amortise bond premium currently for all of the U.S. Holder’s other debt instruments with amortisable bond premium. U.S. Holders of Notes should consult their own tax advisors concerning the consequences, means and advisability of making such an election.

### *Non-U.S. Holders*

Non-U.S. Holders will generally not be subject to U.S. Federal income tax on payments of principal, interest (including OID) and premium (if any) on any Note unless such principal, interest or premium payment is effectively connected with the conduct of a trade or business by the Non-U.S. Holder within the United States.

## **Disposition of a Note**

### *U.S. Holders*

Except as discussed above, upon the sale, exchange or retirement of a Note, a U.S. Holder generally will recognise taxable gain or loss equal to the difference between the amount realised on the sale, exchange or retirement (other than amounts representing accrued and unpaid interest not previously included in income, which will be taxable as such) and such U.S. Holder’s adjusted tax basis in such Note. A U.S. Holder’s adjusted tax basis in a Note generally will equal such U.S. Holder’s initial investment in such Note increased by any OID included in income and any accrued market discount included in income and, decreased by the amount of any payments that are not deemed qualified stated interest payments and amortisable bond

premium applied to reduce interest with respect to such Note. Such gain or loss generally will be long-term capital gain or loss if the Note was held for more than one year. Deduction of capital losses for U.S. Federal income tax purposes is subject to limitations.

#### *Non-U.S. Holders*

Non-U.S. Holders generally will not be subject to U.S. Federal income taxation on gain or income unless (a) such Non-U.S. Holder is an individual who is present in the United States for 183 days or more in the taxable year and has certain other connections with the United States or (b) such gain is effectively connected with the conduct of a trade or business by the Non-U.S. Holder within the United States.

#### **Foreign Tax Credit Sourcing Rules**

Interest and OID on the Notes should be treated as income from sources without the United States for purposes of the foreign tax credit limitation.

Gain or loss recognised on the sale, exchange or retirement of a Note by a U.S. Holder generally will constitute income from sources within the United States.

U.S. Holders of Notes should consult their own tax advisors concerning the source of income or loss with respect to the Notes and the application of the foreign tax credit limitation generally.

#### **Foreign Currency Notes**

The following summary relates to Notes that are denominated in a currency or basket of currencies other than the U.S. dollar (“Foreign Currency Notes”).

#### *Payments of Interest in a Foreign Currency*

A U.S. Holder will be required to include in income the U.S. dollar value of the amount of interest income (including OID or market discount and reduced by amortisable bond premium to the extent applicable) that has accrued and is otherwise required to be taken into account with respect to a Note during an accrual period. The U.S. dollar value of such accrued income will be determined by translating such income at the average rate of exchange for the accrual period or, with respect to an accrual period that spans two taxable years, at the average rate for the partial period within the taxable year. A U.S. Holder may elect, however, to translate such accrued interest income using the spot rate on the last day of the accrual period or, with respect to an accrual period that spans two taxable years, using the spot rate on the last day of the taxable year. If the last day of an accrual period is within five business days of the date of receipt of the accrued interest, a U.S. Holder may translate such interest using the spot rate on the date of receipt. U.S. Holders should consult their own tax advisors concerning the consequences, means and advisability of making such an election.

A U.S. Holder who receives a payment of interest in Foreign Currency may recognise exchange gain or loss (which will be treated as ordinary income or loss) with respect to accrued interest income on the date such income is received. The amount of ordinary income or loss recognised will equal the difference, if any, between the U.S. dollar value of the Foreign Currency payment received (determined using the spot rate on the date such payment is received) in respect of such accrued interest and the U.S. dollar value of the income inclusion with respect to such accrued interest (as determined above).

Special rules apply to market discount and bond premium received on Foreign Currency Notes. U.S. Holders of Notes should consult their own tax advisors regarding such special rules.

#### *Foreign Currency Discount Notes*

OID for any accrual period on a Note that is denominated in a Foreign Currency will be determined in the Foreign Currency and then translated into U.S. dollars in the same manner as stated interest accrued before receipt, as described above. Upon receipt of an amount attributable to OID (whether in connection with a payment of interest or the sale or retirement of a Note), a U.S. Holder may recognise exchange gain or loss

(which will be treated as ordinary gain or loss) measured by the difference between the amount received (translated into U.S. dollars at the spot rate on the date of receipt) and the amount previously accrued.

#### *Foreign Currency Gain or Loss on Sale, Exchange or Retirement*

If a U.S. Holder receives Foreign Currency on a sale, exchange or retirement of a Note, the amount realised will be based on the U.S. dollar value of the Foreign Currency on the date the payment is received or the instrument is disposed of (or deemed disposed of). Gain or loss realised upon the sale, exchange or retirement of a Note that is attributable to fluctuations in currency exchange rates will be ordinary income or loss which will not be treated as interest income or expense. Gain or loss attributable to fluctuations in exchange rates will equal the difference between the U.S. dollar value of the Foreign Currency principal amount of a Note, determined using the spot rate on the date such payment is received or such Note is disposed of, and the U.S. dollar value of the Foreign Currency principal amount of such Note, determined using the spot rate on the date the U.S. Holder acquired such Note. Such Foreign Currency gain or loss will be recognised only to the extent of the total gain or loss realised by the U.S. Holder on the sale, exchange or retirement of such Note.

#### *Payment of Interest or Principal in Dollars*

If a U.S. Holder receives such payment in U.S. dollars, the receipt of payment should be treated as though payment were made in the Foreign Currency and such Foreign Currency immediately exchanged for U.S. dollars. With respect to the deemed payment in Foreign Currency, the rules described above should apply. With respect to the deemed exchange of Foreign Currency for U.S. dollars, additional currency exchange gain or loss would be realised to reflect the difference between (i) the U.S. dollar value of the Foreign Currency at the spot rate in effect on the payment date, and (ii) the actual amount of U.S. dollars received.

### **Backup Withholding and Information Reporting**

#### *U.S. Holders*

In general, information reporting and “backup withholding” may be required with respect to principal and interest payments, and proceeds from certain sales of an obligation prior to maturity, made within the United States and the accrual of OID to a non-corporate U.S. Holder if such holder fails to (i) furnish a taxpayer identification number, (ii) certify that such holder is not subject to backup withholding or (iii) otherwise comply with applicable requirements of the backup withholding rules.

#### *Non U.S. Holders*

Information reporting and backup withholding generally will not apply to payments made to a Non-U.S. Holder made outside the United States unless the Issuer or the relevant paying agent has reason to know that such holder is a United States person. Principal and interest on a Note paid by the U.S. office of a custodian, nominee or agent of the beneficial owner, or the payment by the U.S. office of a broker of the proceeds of a sale or exchange of a Note will be subject to backup withholding and information reporting unless the beneficial owner complies with the certification procedures for non-United States persons, or otherwise establishes an exemption from information reporting.

If interest payments are collected outside of the United States by a foreign office of a custodian, nominee or other agent on behalf of a beneficial owner of a Note, backup withholding or information reporting by such custodian, nominee or other agent generally will not be required with respect to interest payments made to such owner. However, if such custodian, nominee or other agent is a United States person or a U.S. controlled person (as herein defined), information reporting and, in certain cases, backup withholding will be required with respect to interest payments made to such owner unless such custodian, nominee or other agent has documentary evidence in its records that such owner is not a United States person and does not have reason to know that such evidence is false, or the beneficial owner otherwise establishes an exemption from information reporting and backup withholding.

Payment of the proceeds on the retirement or sale of a Note outside the United States or to or through a foreign office of a broker generally will not be subject to information reporting and backup withholding.

However, if such broker is a United States person or a U.S. controlled person information reporting and, in certain cases, backup withholding will apply to such payment unless, in general, such broker has documentary evidence in its records that the owner is not a United States person and does not have reason to know that such evidence is false or the beneficial owner otherwise establishes an exemption from such reporting.

For purposes of the above, "U.S. controlled person" means: (i) a controlled foreign corporation for U.S. Federal income tax purposes; (ii) a foreign person 50 per cent. or more of whose gross income for the three year period ending with the close of its taxable year preceding the year of payment is effectively connected with a U.S. trade or business; or (iii) a foreign partnership if, at any time during its tax years, one or more of its partners are U.S. persons who in the aggregate hold more than 50 per cent. of the income or capital interest of the partnership or if, at any time during its taxable year it is engaged in the conduct of a trade or business within the United States.

## SUBSCRIPTION AND SALE AND TRANSFER AND SELLING RESTRICTIONS

The Dealers have in an Amended and Restated Programme Agreement (the “Programme Agreement”) dated 20th September, 2005, agreed with the Issuer a basis upon which they or any of them may from time to time agree to purchase Notes. Any such agreement will extend to those matters stated under “Form of the Notes” and “Terms and Conditions of the Notes” above. In the Programme Agreement, the Issuer has agreed to reimburse the Dealers for certain of their expenses in connection with the establishment and any future update of the Programme and the issue of Notes under the Programme and to indemnify the Dealers against certain liabilities incurred by them in connection herewith.

In order to facilitate the offering of any Tranche of the Notes, certain persons participating in the offering of the Tranche may engage in transactions with a view to supporting the market price of the relevant Notes during and after the offering of the Tranche at a level higher than that which might otherwise prevail. Specifically such persons may over-allot or create a short position in the Notes for their own account by selling more Notes than have been sold to them by the Issuer. Such persons may also elect to cover any such short position by purchasing Notes in the open market. In addition, such persons may support the price of the Notes by bidding for or purchasing Notes in the open market and may impose penalty bids, under which selling concessions allowed to syndicate members or other broker-dealers participating in the offering of the Notes are reclaimed if Notes previously distributed in the offering are repurchased in connection with stabilisation transactions or otherwise. The effect of these transactions may be to support the market price of the Notes at a level higher than that which might otherwise prevail in the open market. The imposition of a penalty bid may also affect the price of the Notes to the extent that it discourages resales thereof.

To the extent that the provisions of Directive 2003/6/EC of the European Parliament and of the Council (the “Market Abuse Directive”) are required to be observed, in connection with the issue of any Tranche of Notes, the Dealer or Dealers named as the Stabilising Manager(s) (or persons acting on behalf of any Stabilising Manager(s)) in the applicable Final Terms may over-allot Notes (provided that, in the case of any Tranche of Notes to be listed or admitted to trading on Euronext Amsterdam or another regulated market, the aggregate principal amount of Notes allotted does not exceed 105 per cent. of the aggregate principal amount of the relevant Tranche) or effect transactions with a view to supporting the market price of the Notes at a level higher than that which might otherwise prevail. However, there is no assurance that the Stabilising Manager(s) (or persons acting on behalf of a Stabilising Manager) will undertake stabilisation action. Any such stabilisation action may begin on or after the date on which adequate public disclosure of the final terms (in the case of Notes convertible or exchangeable into shares or into other securities equivalent to shares) or terms (in all other cases) of the offer of the relevant Tranche of Notes is made and, if begun, may be ended at any time, but it must end no later than the earlier of 30 days after the issue date of the relevant Tranche of Notes and 60 days after the date of the allotment of the relevant Tranche of Notes.

To the extent that the provisions of the Market Abuse Directive are not required to be observed in connection with the issue of any Tranche of Notes, then in connection with the issue and distribution of any Tranche of Notes, the Dealer or Dealers named as the Stabilising Manager(s) (or persons acting on behalf of any Stabilising Manager(s)) in the applicable Final Terms may over-allot or effect transactions with a view to supporting the market price of the Notes at a level higher than that which might otherwise prevail. However, there may be no obligation on the Stabilising Manager(s) (or persons acting on behalf of a Stabilising Manager) to do this. Such stabilising, if commenced, may be discontinued at any time and must be brought to an end after a limited period. Such stabilising shall be in compliance with all relevant laws and regulations, including (for so long as applicable) Article 32 and Annex 6 of the Further Regulations on Market Conduct Supervision of the Securities Trade 2002 (*Nadere regeling gedragstoezicht effectenverkeer 2002*) as amended. If so required by applicable law or regulation, stabilising will in any event be brought to an end within 30 days after the Closing Date applicable to such Notes.

### **Transfer Restrictions**

As a result of the following restrictions, purchasers of Notes in the United States are advised to consult legal counsel prior to making any purchase, offer, sale, resale or other transfer of such Notes.

Each purchaser of Registered Notes (other than a person purchasing an interest in a Registered Global Note with a view to holding it in the form of an interest in the same Global Note) or person wishing to transfer an interest from one Registered Global Note to another or from global to definitive form or vice versa, will be required to acknowledge, represent and agree, and each person purchasing an interest in a Registered Global Note with a view to holding it in the form of an interest in the same Global Note will be deemed to have acknowledged, represented and agreed, as follows (terms used in this paragraph that are defined in Rule 144A or in Regulation S are used herein as defined therein):

- (i) that either: (a) it is a QIB, purchasing (or holding) the Notes for its own account or for the account of one or more QIBs and it is aware that any sale to it is being made in reliance on Rule 144A or (b) it is an Institutional Accredited Investor which has delivered an IAI Investment Letter or (c) it is outside the United States and is not a U.S. person;
- (ii) that the Notes are being offered and sold in a transaction not involving a public offering in the United States within the meaning of the Securities Act, and that the Notes have not been and will not be registered under the Securities Act or any U.S. state securities laws and may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons except as set forth below;
- (iii) that, unless it holds an interest in a Regulation S Global Note and either is a person located outside the United States or is not a U.S. person, if in the future it decides to resell, pledge or otherwise transfer the Notes or any beneficial interests in the Notes, it will do so, prior to the date which is two years after the later of the last Issue Date for the Series and the last date on which the Issuer or an affiliate of the Issuer was the owner of such Notes, only (a) to the Issuer or any affiliate thereof, (b) to a person whom the seller reasonably believes is a QIB purchasing for its own account or for the account of a QIB in a transaction meeting the requirements of Rule 144A, (c) in compliance with Rule 903 or Rule 904 under the Securities Act, (d) pursuant to the exemption from registration provided by Rule 144 under the Securities Act (if available) or (e) pursuant to an effective registration statement under the Securities Act, in each case in accordance with all applicable U.S. state securities laws;
- (iv) that it will, and will require each subsequent holder to, notify any purchaser of the Notes from it of the resale restrictions referred to in paragraph (iii) above, if then applicable;
- (v) that Notes initially offered in the United States to QIBs will be represented by one or more Rule 144A Global Notes, that Notes offered to Institutional Accredited Investors will be in the form of Definitive IAI Registered Notes and that Notes offered outside the United States in reliance on Regulation S will be represented by one or more Regulation S Global Notes;
- (vi) that the Notes, other than the Regulation S Global Notes, will bear a legend to the following effect unless otherwise agreed to by the Issuer:

“THIS SECURITY HAS NOT BEEN AND WILL NOT BE REGISTERED UNDER THE U.S. SECURITIES ACT OF 1933, AS AMENDED (THE “SECURITIES ACT”), OR ANY U.S. STATE SECURITIES LAWS AND, ACCORDINGLY, MAY NOT BE OFFERED OR SOLD WITHIN THE UNITED STATES OR TO, OR FOR THE ACCOUNT OR BENEFIT OF, U.S. PERSONS EXCEPT AS SET FORTH IN THE FOLLOWING SENTENCE. BY ITS ACQUISITION HEREOF, THE HOLDER (A) REPRESENTS THAT (1) IT IS A “QUALIFIED INSTITUTIONAL BUYER” (AS DEFINED IN RULE 144A UNDER THE SECURITIES ACT) PURCHASING (OR HOLDING) THE SECURITIES FOR ITS OWN ACCOUNT OR FOR THE ACCOUNT OF ONE OR MORE QUALIFIED INSTITUTIONAL BUYERS OR (2) IT IS AN INSTITUTIONAL “ACCREDITED INVESTOR” (AS DEFINED IN RULE 501(A)(1), (2), (3) OR (7) UNDER THE SECURITIES ACT) (AN “INSTITUTIONAL ACCREDITED INVESTOR”); (B) AGREES THAT IT WILL NOT RESELL OR OTHERWISE TRANSFER THIS SECURITY EXCEPT IN ACCORDANCE WITH THE AGENCY AGREEMENT AND, PRIOR TO THE DATE WHICH IS TWO YEARS AFTER THE LATER OF THE LAST ISSUE DATE FOR THE SERIES AND THE LAST DATE ON WHICH THE ISSUER OR AN AFFILIATE OF THE ISSUER WAS THE OWNER OF SUCH SECURITIES OTHER THAN (1) TO THE ISSUER OR ANY AFFILIATE THEREOF, (2) TO A PERSON WHOM THE SELLER REASONABLY BELIEVES IS A QUALIFIED INSTITUTIONAL BUYER WITHIN THE MEANING OF RULE 144A UNDER THE SECURITIES ACT PURCHASING FOR ITS OWN ACCOUNT OR FOR THE ACCOUNT OF A QUALIFIED

INSTITUTIONAL BUYER IN A TRANSACTION MEETING THE REQUIREMENTS OF RULE 144A, (3) IN COMPLIANCE WITH RULE 903 OR RULE 904 UNDER THE SECURITIES ACT, (4) PURSUANT TO THE EXEMPTION FROM REGISTRATION PROVIDED BY RULE 144 UNDER THE SECURITIES ACT (IF AVAILABLE) OR (5) PURSUANT TO AN EFFECTIVE REGISTRATION STATEMENT UNDER THE SECURITIES ACT, IN EACH CASE IN ACCORDANCE WITH ALL APPLICABLE SECURITIES LAWS OF THE STATES OF THE UNITED STATES AND ANY OTHER JURISDICTION; AND (C) IT AGREES THAT IT WILL DELIVER TO EACH PERSON TO WHOM THIS SECURITY IS TRANSFERRED A NOTICE SUBSTANTIALLY TO THE EFFECT OF THIS LEGEND.

THIS SECURITY AND RELATED DOCUMENTATION (INCLUDING, WITHOUT LIMITATION, THE AGENCY AGREEMENT REFERRED TO HEREIN) MAY BE AMENDED OR SUPPLEMENTED FROM TIME TO TIME, WITHOUT THE CONSENT OF, BUT UPON NOTICE TO, THE HOLDERS OF SUCH SECURITIES SENT TO THEIR REGISTERED ADDRESSES, TO MODIFY THE RESTRICTIONS ON AND PROCEDURES FOR REALES AND OTHER TRANSFERS OF THIS SECURITY TO REFLECT ANY CHANGE IN APPLICABLE LAW OR REGULATION (OR THE INTERPRETATION THEREOF) OR IN PRACTICES RELATING TO REALES OR OTHER TRANSFERS OF RESTRICTED SECURITIES GENERALLY. THE HOLDER OF THIS SECURITY SHALL BE DEEMED, BY ITS ACCEPTANCE OR PURCHASE HEREOF, TO HAVE AGREED TO ANY SUCH AMENDMENT OR SUPPLEMENT (EACH OF WHICH SHALL BE CONCLUSIVE AND BINDING ON THE HOLDER HEREOF AND ALL FUTURE HOLDERS OF THIS SECURITY AND ANY SECURITIES ISSUED IN EXCHANGE OR SUBSTITUTION THEREFOR, WHETHER OR NOT ANY NOTATION THEREOF IS MADE HEREON).”;

- (vii) if it is outside the United States and is not a U.S. person, that if it should resell or otherwise transfer the Notes prior to the expiration of the distribution compliance period (defined as 40 days after the later of the commencement of the offering and the closing date with respect to the original issuance of the Notes), it will do so only (a)(i) in compliance with Rule 903 or 904 under the Securities Act or (ii) to a QIB in compliance with Rule 144A and (b) in accordance with all applicable U.S. State securities laws; and it acknowledges that the Regulation S Global Notes will bear a legend to the following effect unless otherwise agreed to by the Issuer:

“THIS SECURITY HAS NOT BEEN AND WILL NOT BE REGISTERED UNDER THE U.S. SECURITIES ACT OF 1933, AS AMENDED (THE “SECURITIES ACT”), OR ANY OTHER APPLICABLE U.S. STATE SECURITIES LAWS AND, ACCORDINGLY, MAY NOT BE OFFERED OR SOLD WITHIN THE UNITED STATES OR TO, OR FOR THE ACCOUNT OR BENEFIT OF, U.S. PERSONS EXCEPT IN ACCORDANCE WITH THE AGENCY AGREEMENT AND PURSUANT TO AN EXEMPTION FROM REGISTRATION UNDER THE SECURITIES ACT OR PURSUANT TO AN EFFECTIVE REGISTRATION STATEMENT UNDER THE SECURITIES ACT. THIS LEGEND SHALL CEASE TO APPLY UPON THE EXPIRY OF THE PERIOD OF 40 DAYS AFTER THE COMPLETION OF THE DISTRIBUTION OF ALL THE NOTES OF THE TRANCHE OF WHICH THIS NOTE FORMS PART.”; and

- (viii) that the Issuer and others will rely upon the truth and accuracy of the foregoing acknowledgements, representations and agreements and agrees that if any of such acknowledgements, representations or agreements made by it are no longer accurate, it shall promptly notify the Issuer; and if it is acquiring any Notes as a fiduciary or agent for one or more accounts it represents that it has sole investment discretion with respect to each such account and that it has full power to make the foregoing acknowledgements, representations and agreements on behalf of each such account.

Institutional Accredited Investors who purchase Registered Notes in definitive form offered and sold in the United States in private transactions that are exempt from registration under the Securities Act are required to execute and deliver to the Registrar an IAI Investment Letter. Upon execution and delivery of an IAI Investment Letter by an Institutional Accredited Investor, Notes will be issued in definitive registered form, see “Form of the Notes”.

The IAI Investment Letter will state, among other things, the following:

- (i) that the Institutional Accredited Investor has received a copy of the Prospectus and such other information as it deems necessary in order to make its investment decision;
- (ii) that the Institutional Accredited Investor understands that any subsequent transfer of the Notes is subject to certain restrictions and conditions set forth in the Prospectus and the Notes (including those set out above) and that it agrees to be bound by, and not to resell, pledge or otherwise transfer the Notes except in compliance with, such restrictions and conditions and the Securities Act;
- (iii) that, in the normal course of its business, the Institutional Accredited Investor invests in or purchases securities similar to the Notes;
- (iv) that the Institutional Accredited Investor is an “Accredited Investor” within the meaning of Rule 501(a)(1), (2), (3) or (7) of Regulation D under the Securities Act and has such knowledge and experience in financial and business matters as to be capable of evaluating the merits and risks of its investment in the Notes, and it and any accounts for which it is acting are each able to bear the economic risk of its or any such accounts’ investment for an indefinite period of time;
- (v) that the Institutional Accredited Investor is acquiring the Notes purchased by it for its own account or for one or more accounts (each of which is an Institutional Accredited Investor) as to each of which it exercises sole investment discretion and not with a view to any distribution of the Notes, subject, nevertheless, to the understanding that the disposition of its property shall at all times be and remain within its control; and
- (vi) that, in the event that the Institutional Accredited Investor purchases Notes, it will acquire Notes having a minimum purchase price of at least U.S.\$500,000 (or the approximate equivalent in another Specified Currency).

No sale of Legended Notes in the United States to any one purchaser will be for less than U.S.\$100,000 (or its foreign currency equivalent) principal amount or, in the case of sales to Institutional Accredited Investors, U.S.\$500,000 (or its foreign currency equivalent) principal amount and no Legended Note will be issued in connection with such a sale in a smaller principal amount. If the purchaser is a non-bank fiduciary acting on behalf of others, each person for whom it is acting must purchase at least U.S.\$100,000 (or its foreign currency equivalent) or, in the case of sales to Institutional Accredited Investors, U.S.\$500,000 (or its foreign currency equivalent) principal amount of Registered Notes.

### **United States**

The Notes have not been and will not be registered under the Securities Act and may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons except in certain transactions exempt from the registration requirements of the Securities Act.

The Notes in bearer form are subject to U.S. tax law requirements and may not be offered, sold or delivered within the United States or its possessions or to a United States person, except in certain transactions permitted by U.S. tax regulations. Terms used in this paragraph have the meanings given to them by the U.S. Internal Revenue Code of 1986 and regulations thereunder.

In connection with any Notes which are offered or sold outside the United States in reliance on an exemption from the registration requirements of the Securities Act provided under Regulation S (“Regulation S Notes”), each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that it will not offer, sell or deliver such Regulation S Notes (i) as part of their distribution at any time or (ii) otherwise until 40 days after the completion of the distribution, as determined and certified by the relevant Dealer or, in the case of an issue of Notes on a syndicated basis, the relevant lead manager, of all Notes of the Tranche of which such Regulation S Notes are a part, within the United States or to, or for the account or benefit of, U.S. persons. Each Dealer has further agreed, and each further Dealer appointed under the Programme will be required to agree, that it will send to each dealer to which it sells any Regulation S Notes during the distribution compliance period a confirmation or other notice setting forth the restrictions on offers and sales of the Regulation S Notes within the United States or to, or for the account or benefit of, U.S. persons.

Until 40 days after the commencement of the offering of any Series of Notes, an offer or sale of such Notes within the United States by any dealer (whether or not participating in the offering) may violate the registration requirements of the Securities Act if such offer or sale is made otherwise than in accordance with an available exemption from registration under the Securities Act.

Dealers may arrange for the resale of Notes to QIBs pursuant to Rule 144A and each such purchaser of Notes is hereby notified that the Dealers may be relying on the exemption from the registration requirements of the Securities Act provided by Rule 144A. The minimum aggregate principal amount of Notes which may be purchased by a QIB pursuant to Rule 144A is U.S.\$100,000 (or the approximate equivalent thereof in any other currency). The Issuer has agreed that, for so long as any of the Notes are “restricted securities” within the meaning of Rule 144(a)(3) under the Securities Act, to the extent that the Issuer is not subject to or does not comply with the reporting requirements of Section 13 or 15(d) of the Exchange Act or the information furnishing requirements of Rule 12g3-2(b) thereunder, it will furnish to holders of Notes and to prospective purchasers designated by such holders, upon request, such information as may be required by Rule 144A(d)(4).

Each issue of Index Linked Notes and Dual Currency Notes shall be subject to such additional U.S. selling restrictions as the Issuer and the relevant Dealer may agree, as indicated in the applicable Final Terms.

### **European Economic Area**

In relation to each Member State of the European Economic Area which has implemented the Prospectus Directive (each, a “Relevant Member State”), each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that with effect from and including the date on which the Prospectus Directive is implemented in that Relevant Member State (the “Relevant Implementation Date”) it has not made and will not make an offer of Notes to the public in that Relevant Member State, except that it may, with effect from and including the Relevant Implementation Date, make an offer of Notes to the public in that Relevant Member State:

- (a) in (or in Germany, where the offer starts within) the period beginning on the date of publication of a prospectus in relation to those Notes which has been approved by the competent authority in that Relevant Member State or, where appropriate, approved in another Relevant Member State and notified to the competent authority in that Relevant Member State, all in accordance with the Prospectus Directive and ending on the date which is 12 months after the date of such publication;
- (b) at any time to legal entities which are authorised or regulated to operate in the financial markets or, if not so authorised or regulated, whose corporate purpose is solely to invest in securities;
- (c) at any time to any legal entity which has two or more of (1) an average of at least 250 employees during the last financial year; (2) a total balance sheet of more than €43,000,000 and (3) an annual net turnover of more than €50,000,000, as shown in its last annual or consolidated accounts; or
- (d) at any time in any other circumstances which do not require the publication by the Issuer of a prospectus pursuant to Article 3 of the Prospectus Directive.

For the purposes of this provision, the expression an “offer of Notes to the public” in relation to any Notes in any Relevant Member State means the communication in any form and by any means of sufficient information on the terms of the offer and the Notes to be offered so as to enable an investor to decide to purchase or subscribe the Notes, as the same may be varied in that Member State by any measure implementing the Prospectus Directive in that Member State and the expression “Prospectus Directive” means Directive 2003/71/EC and includes any relevant implementing measure in each Relevant Member State.

### **United Kingdom**

Each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that:

- (a) in relation to any Notes which have a maturity of less than one year, (i) it is a person whose ordinary activities involve it in acquiring, holding, managing or disposing of investments (as principal or agent) for the purposes of its business and (ii) it has not offered or sold and will not offer or sell any Notes other than to persons whose ordinary activities involve them in acquiring, holding, managing or disposing of investments (as principal or as agent) for the purposes of their businesses or who it is reasonable to expect will acquire, hold, manage or dispose of investments (as principal or agent) for the purposes of their businesses where the issue of the Notes would otherwise constitute a contravention of Section 19 of the FSMA by the Issuer;
- (b) it has only communicated or caused to be communicated and will only communicate or cause to be communicated an invitation or inducement to engage in investment activity (within the meaning of Section 21 of the FSMA) received by it in connection with the issue or sale of any Notes in circumstances in which Section 21(1) of the FSMA does not apply to the Issuer; and
- (c) it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to any Notes in, from or otherwise involving the United Kingdom.

## **Japan**

The Notes have not been and will not be registered under the Securities and Exchange Law of Japan (the “Securities and Exchange Law”). Accordingly each Dealer has represented, warranted and agreed, and each further Dealer appointed under the Programme will be required to represent, warrant and agree, that it will not offer or sell any Notes, directly or indirectly, in Japan or to, or for the benefit of, any resident of Japan (which term as used herein means any person resident in Japan, including any corporation or other entity organised under the laws of Japan), or to others for re-offering or resale, directly or indirectly, in Japan or to or for the benefit of a resident of Japan, except pursuant to an exemption from the registration requirements of, and otherwise in compliance with, the Securities and Exchange Law and any other applicable laws, regulations and ministerial guidelines of Japan.

## **The Netherlands**

Bearer Zero Coupon Notes and other Notes which qualify as savings certificates as defined in the Dutch Savings Certificates Act (*Wet inzake spaarbewijzen*) may only be transferred or accepted through the mediation of either the Issuer or a Member of Euronext Amsterdam N.V. with due observance of the Savings Certificates Act and its implementing regulations (including registration requirements), provided that no mediation is required in respect of (i) the initial issue of those Notes to the first holders thereof, (ii) any transfer and delivery by individuals who do not act in the conduct of a profession or trade, and (iii) the issue and trading of those Notes, if they are physically issued outside the Netherlands and are not distributed in the Netherlands in the course of primary trading or immediately thereafter.

Each Dealer has represented and agreed and each further Dealer appointed under the Programme will be required to represent and agree that any Notes with a maturity of less than 12 months will either have a minimum denomination of €50,000 or be offered anywhere in the world in circumstances where another exemption or a dispensation from the requirement to make a prospectus publicly available has been granted under Article 4 of the Securities Transactions Supervision Act 1995 (“*Wet toezicht effectenverkeer 1995*”).

## **General**

Each Dealer has agreed and each further Dealer appointed under the Programme will be required to agree that it will (to the best of its knowledge and belief) comply with all applicable securities laws and regulations in force in any jurisdiction in which it purchases, offers or sells Notes or possesses or distributes this Prospectus and will obtain any consent, approval or permission required by it for the purchase, offer, sale or delivery by it of Notes under the laws and regulations in force in any jurisdiction to which it is subject or in which it makes such purchases, offers, sales or deliveries and neither the Issuer nor any Dealer shall have any responsibility therefor.

Neither the Issuer nor any of the Dealers represents that Notes may at any time lawfully be sold in compliance with any applicable registration or other requirements in any jurisdiction, or pursuant to any exemption available thereunder, or assumes any responsibility for facilitating such sale.

With regard to each Tranche, the relevant Dealer will be required to comply with any other additional restrictions set out in the applicable Final Terms.

## GENERAL INFORMATION

### Authorisation

The establishment of the Programme and the issue of Notes under the Programme have been duly authorised by a resolution of the Board of Management of the Issuer dated 24th August, 1998. This resolution was lawfully approved by the Supervisory Board on 1st September, 1998. An increase of the maximum aggregate nominal amount of the Programme from U.S.\$5,000,000,000 to U.S.\$10,000,000,000 was duly authorised by a resolution of the Board of Management of the Issuer dated 19th June, 2000. The resolution was lawfully approved by the Supervisory Board on 26th June, 2000. The renewal of the Programme (including changing the maximum aggregate nominal amount from U.S.\$10,000,000,000 to €10,000,000,000) and the issue of the Notes have been duly authorised by a resolution of the Board of Management of the Issuer dated 24th February, 2005. The resolution was lawfully approved by the Supervisory Board on 28th February, 2005. All consents, approvals, authorisations or other orders of all regulatory authorities required by the Issuer under the laws of The Netherlands have been given for the issue of Notes and for the Issuer to undertake and perform its obligations under the Programme Agreement, the Agency Agreement and the Notes.

### Listing and admission to trading

Application has been made to Euronext Amsterdam for Notes issued under the Programme and up to the expiry of 12 months from the date of this Prospectus to be admitted to trading on Euronext Amsterdam.

### Documents Available

So long as Notes are capable of being issued under the Programme for the period of 12 months following the date of this Prospectus, copies of the following documents will, when published, be available free of charge in English from the registered office of the Issuer and from the specified offices of the Principal Paying Agent:

- (i) an English translation of the most recent Articles of Association of the Issuer;
- (ii) the annual reports of the Issuer for the years ended 2002, 2003 and 2004 (containing the audited financial statements of the Issuer, which include the consolidated financial statements), in each case together with the audit reports prepared in connection therewith;
- (iii) the consolidated unaudited quarterly report of the Issuer for the three months ended 31st March, 2005 prepared in accordance with IFRS;
- (iv) the consolidated unaudited semi-annual report of the Issuer for the six months ended 30th June, 2005 prepared in accordance with IFRS;
- (v) the Issuer's unaudited consolidated balance sheet as at 1st January, 2004, unaudited consolidated balance sheet as at 31st December, 2004, unaudited consolidated balance sheet as at 1st January, 2005, unaudited consolidated income statement and cash flow statements for the first, second, third and fourth quarter of 2004 for the full year, each prepared in accordance with IFRS;
- (vi) the Programme Agreement and the Agency Agreement (which contains the forms of the global Notes, the Notes in definitive form, the Receipts, the Coupons and the Talons);
- (vii) a copy of the 2004 Form 20-F;
- (viii) a copy of this Prospectus;
- (ix) each set of Final Terms in respect of Notes which are listed or admitted to trading on any market; and
- (x) in the case of each issue of listed Notes subscribed pursuant to a syndication agreement, the syndication agreement (or equivalent document).

## **Clearing and Settlement Systems**

The Notes have been accepted for clearance through Euroclear, Clearstream, Luxembourg and the Securities Clearing Corporation of Euronext Amsterdam. The appropriate Common Code, ISIN and Fondscode for each Tranche of Notes allocated by Euroclear, Clearstream, Luxembourg and the Securities Clearing Corporation of Euronext Amsterdam, and any other relevant security code, will be specified in the applicable Final Terms. If the Notes are to clear through an additional or alternative clearing system the appropriate information will be specified in the applicable Final Terms.

## **Conditions for determining price**

The price and amount of Notes to be issued under the Programme will be determined by the Issuer and the relevant Dealer at the time of issue in accordance with prevailing market conditions.

## **Significant or Material Change**

Save as disclosed herein, there has been no significant change in the financial or trading position of the Issuer or the Issuer and its subsidiaries, taken as a whole, and there has been no material adverse change in the financial position or prospects of the Issuer, or the Issuer and its subsidiaries taken as a whole, since 31st December, 2004.

## **Litigation**

There are no, nor has there been any, governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which the Issuer is aware) in the twelve months preceding the date of this document which may have or have had in such period a significant effect on the financial position or profitability of the Issuer or the Issuer and its subsidiaries taken as a whole. See “Description of the Company – Legal and Arbitration Proceedings” for a description of the main legal proceedings pending which concern the Issuer.

## **Auditors**

The auditors of the Issuer are PricewaterhouseCoopers Accountants N.V., members of the Netherlands Institute for Registeraccountants (“NIVRA”), who have audited the financial statements of the Issuer in accordance with generally accepted auditing standards in The Netherlands for each of the financial years ended 31st December, 2002, 2003 and 2004 and issued a report for each of these years without qualification. The auditors of the Issuer have no material interest in the Issuer. The business address of PricewaterhouseCoopers Accountants N.V. is P.O. Box 30715, 2500 GS The Hague, The Netherlands.

The reports of the auditors of the Issuer are included or incorporated in the form and context in which they are included or incorporated, with the consent of the auditors who have authorised the contents of that part of this Prospectus.

## **Post-issuance information**

The Issuer does not intend to provide any post-issuance information in relation to any issues of Notes.

## **Commercial Register**

The Issuer is registered in the Commercial Register of Haaglanden under No. 02045200.

## **Issuer’s Website**

The Issuer’s website address is [www.kpn.com](http://www.kpn.com). Information on the Issuer’s website does not form part of this Prospectus and may not be relied upon in connection with any decision to invest in any Notes.

**Dealers transacting with the Issuer**

Certain of the Dealers and their affiliates have engaged, and may in the future engage, in investment banking and/or commercial banking transactions with, and may perform services to the Issuer and its affiliates in the ordinary course of business.

**REGISTERED OFFICE OF THE ISSUER**

**Koninklijke KPN N.V.**

Maanplein 55  
2516 CK The Hague  
The Netherlands

**PRINCIPAL PAYING AGENT**

*For all Notes (other than Notes  
deposited with Euroclear Netherlands):*

**Citibank, N.A.**  
5 Carmelite Street  
London EC4Y 0PA  
United Kingdom

*For Notes deposited with Euroclear Netherlands:*

**ABN AMRO Bank N.V.**  
Kemelstede 2  
4817 ST Breda  
The Netherlands

**REGISTRAR**

**Citibank, N.A.**  
5 Carmelite Street  
London EC4Y 0PA  
United Kingdom

**PAYING AND TRANSFER AGENTS**

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Kemelstede 2  
4817 ST Breda  
The Netherlands

**ING Belgium S.A./N.V.**  
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Belgium

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L-2953 Luxembourg  
Luxembourg

**LEGAL ADVISERS**

*To the Issuer in respect of the Programme and as to English, U.S. and Dutch law*

**Allen & Overy LLP**

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*To the Arranger and Dealers as to Dutch and English law*

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